THE PRIVATE SECTOR AND THE STATE IN SAUDI ARABIA

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Finally, this thesis is dedicated to the memory of a great being.

Declaration

As the author of this thesis, I declare that this thesis is original. It has not been previously submitted by me, or any other candidate, for a degree in this or any other university.

Abstract

The growth in the popularity of the neo-classical school has led, internationally, to a strong ideological commitment to free market capitalism, with a belief that efficient resource allocation occurs as a result of the private sector responding to market signals. Thus the central role is placed on the market and the private sector as the main engine of growth. The private sector is seen as being profit-maximising and opportunity-seeking, and therefore as technically and managerially more efficient than the state. Thus the state should only be involved in areas of market failure and areas where it can provide services more efficiently than the private sector. State action should not affect overall resource allocation.

The study explores the viability of private sector led development within the context of the Saudi Arabia economy. Since the mid-1980s the Saudi Arabian government has expressed a desire for the private sector to play the leading role in the economy, with the government playing a supportive role by providing a positive environment for private sector activity. Up to the present the government has played the central role in the economy as the oil revenue has accrued directly to the government. The potential of private sector led development is analysed through the attitudes of the Saudi Arabian private sector. In order to assess the feasibility of the private sector led development the study examines the ability of the private sector to generate self-sustained growth, the suitability of the business environment and the state and private sector relationship.

The findings of the study suggest that at present private sector led development is not a viable development strategy in Saudi Arabia. The continued economic dependence on oil revenue as the main engine to growth (and the lack of diversification of the economy) limits the role of the private sector. The private sector, moreover, needs to gain experience and develop its core capabilities before it is able successfully to lead development. In addition, a suitable business environment is not yet in place for successful private sector development.

Chapter One

Introduction

1.1. OBJECTIVES OF THE STUDY.

As with all countries, Saudi Arabia aims to achieve economic growth and long-term development of the economy. This study is concerned with the viability of private sector led development in Saudi Arabia. Internationally the role that the private sector is expected to play as an agent of economic development has changed since the Second World War. After the War there was a strong belief in central planning and for the state to play the role as the main agent for development. In developing countries the private sector was often seen as being underdeveloped. The failure of policies including strong government intervention and a strengthened belief in markets as efficient allocators of goods and services has resulted in an emphasis towards the private sector being the main agent for development.

In the case of Saudi Arabia, the government has performed the role as the main agent of development. This role was heightened with the oil-price increases in the 1970s, as the oil wealth accrued to the government. In addition, the private sector was not highly developed, mostly concentrating on trade. With the fall of the oil prices in the 1980s, reduced government spending and the subsequent recession that followed has encouraged the government to promote the private sector as the main agent of development. The private sector is expected to be the main driving force of the economy, whilst the government is expected to provide a conducive business environment. The last two Development Plans (Fifth and Sixth) have also indicated a desire for the private sector to move into areas traditionally dominated by government, such as utilities.

This thesis aims to discuss private sector led development as an alternative strategy for economic growth and development in the context of the Saudi Arabian economy, through the views of the private sector. The scope of the discussion within this research will focus on analysing:

- The potential for economic development generated by the private sector. In order to comprehend whether the private sector is capable of creating self-sustained growth, there is a need to understand how the private sector contributes to the economy and if its growth is independent of the state.
- If the business environment is in place for private sector led development.
- The relationship between the private sector and the state. A good state and private sector relationship is central to the economic development of the country. This includes factors such as whether the private sector is involved in long term policy formulation and if it is able to set its own agenda.

The relevance of this research is to analyse what is undoubtedly one of the most important elements of Saudi Arabia's future economic development drive, i.e. private sector development. The study investigates the attitudes of the private sector to their present role and the capabilities of the private sector. It also looks at whether the business environment meets the needs of the private sector and if the relationship between the private sector and the state is advantageous to economic development. Other theses, such as those by Waznah (1996) and Al-Sarhan (1995), have considered only one aspect of increasing the role of the private sector, through privatisation. In fact, Al-Sarhan investigated the opinions of the private sector towards privatisation. Okruhlik (1992) looked into the growth of the indigenous private sector and the relationship between the state and the private sector, especially in the recession years. However is does not analyse the effect of the relationship on economic development. The perceptions of the private sector will illustrate the potential for economic development, the role that the private sector can play in the economy and the nature of relationship between the state and the private sector.

1.2. STRUCTURE OF THE THESIS.

The study is divided into six chapters:

- Chapter One. The purpose of Chapter One is to outline the objectives of the research and the research methodology for achieving these objectives.

- Chapter Two. The second chapter provides a background to the international theories and literature concerning private sector development. The chapter aims to understand respective roles the private sector and the state in economic development. This chapter is divided into three sections. The first section looks at the historical background to development theories and the shift away in ideology from state-led development to private sector development. The second section investigates theories on the roles that the private sector and the state should have. Even those who believe that economic development should be led by the private sector, also see a role for the state. The final section analyses the importance between how the state related to the economic structures, especially the private sector. The relationship between the state and society is central to the development process as it affects who influences the state, and the ability of the state to formulate and carry out policies for economic development. This section also looks into the theories of the rentier state, as Saudi Arabia is often seen as a rentier state, and this carries implications for the state's relationship with the economy and society.

- Chapter Three. The third chapter outlines the changes in the Saudi Arabian economy to understand why the government wants the private sector to take the lead in the economy. As noted earlier the recession during the 1980s caused by the fall in oil prices and government spending has encouraged the state to promote the private sector. In addition, as the trends in the economy have greatly influenced the health of the private sector, thus to understand the developments of the private sector (Chapter Four) it is important to see the main changes in the economy. The chapter focuses on the developments of the economy after the oil boom in 1973 and the subsequent changes in the economy. This chapter also looks at the changing aims and goals of the Development Plans in response to the fluctuations in the economy.

- Chapter Four. The fourth chapter provides an analysis of the characteristics and the development of the private sector. The chapter firstly defines what constitutes the private sector in Saudi Arabia and the changing importance within it as a result of the oil boom and the policies of a distributive state. The chapter then examines the ways in which the government wants the role of the private sector to increase within the economy. This was done by studying the changing emphasis of the private sector through the aims of the Development Plans. Additionally this chapter looks at government approaches in increasing the contribution of the private sector in the economy and in liberalising the economy. These policies include privatisation, reduced subsidies, Saudi Arabia joining the World Trade Organisation and the policy of Saudiisation (to increase the levels of Saudi Arabians being employed by the private sector). Chapter Four continues by outlining the levels of growth and development of the private sector. The contribution of the private sector is measured by looking at indicators such as private sector's GDP, investments in fixed capital, employment and the number of companies. This chapter finally looks at the main areas of private sector development.

- Chapter Five. Chapter Five analyses the main findings of the interviews conducted with members of the Saudi Arabian private sector. This chapter investigates issues such as the ability of the private sector to lead the process of economic development and the gains in independence of the private sector to government spending, which are crucial for successful private sector led development. Chapter Five also discusses the views of the private sector on its capabilities and levels of efficiency within the private sector. If the state is to be rolled back then the private sector needs the potential to fill the void. In addition the private sector is seen to be more efficient than the state; this is one of the aims of privatisation. A further aspect investigated concerns whether the business environment meets the needs of the private sector. The chapter then reviews the sentiments of the private sector on government policies that affect them (as mentioned above). Finally, Chapter Five investigates the accessibility and the relationship between the private sector and the state.

- Chapter Six. Chapter Six links the findings of Chapter Five and the theoretical chapter; assessing whether private sector development is a viable development strategy for Saudi Arabia.

1.3. METHODOLOGY AND SOURCES.

The thesis is set within the theoretical framework that is laid out in the earlier chapters. The approach to attaining information involves integrating:

- Secondary Sources. Used mainly in the background chapters, such as those on the theoretical discussions, and on the economy in general, as well as on the development of the private sector. Secondary information was also used in supporting the findings of the interviews.
- Primary Sources. These include in-depth interviews (the primary source of data) and primary documents, such as annual reports of SAMA, Five-year Development Plans, Saudi Arabian country reports produced by the IMF, etc. Primary documents are also used in the in the background chapters mentioned above.

Thus this study is mostly based on qualitative information as well as quantitative. The qualitative research was developed from personal interviews. Qualitative data was gathered from primary and secondary sources in order to obtain an overview of economic and private sector development in Saudi Arabia.

1.3.1. INTERVIEWS.

Walker (1985:20-21) suggested that qualitative research can be especially useful when the topic is complicated or sensitive, concerned with relationships or interactions or with the process of change. He noted that qualitative research is also important when the process is not measurable. Interviews are one of the main sources of collecting primary data in the field of social sciences. As noted by Arksey and Knight (1999:32-33) there are many advantages in using interviews, for example in allowing "understanding and meanings" to be explored in depth. As mentioned by Burgess (1982:107), interviews provide:

> "the opportunity for the researcher to probe deeply, to undercover new clues, to open up new dimensions of a problem and to secure vivid, accurate, inclusive accounts that are based on personal experience."

The questions asked in the interviews conducted can be seen in Appendix 1. The list of questions was piloted by five individuals in Saudi Arabia and England, with strong links and understanding of the private sector in Saudi Arabia. These included academics at the King Abdulaziz University, members of the private sector and members of international companies linked with Saudi Arabia (including one linked with business intelligence). As a result, changes were made based on the responses from the pilot studies; for example questions about family businesses were added.

The interviews were conducted in two stages. The first set in March and April 1998, when the majority of the interviews were conducted. A second set of interviews was conducted in November 1998. The latter occasion was also used to question some of the original interviewees on development with in the economy (such as progress towards privatisation) and to fill gaps in the data collected. In addition, contact has been maintained with some of the interviewees to continue the discussion. Although a standard list of questions was employed throughout, in order to help ensure consistency of enquiry, the questions were largely used as a *aide-memoire*. They provide a standard structure, but interviewees were invited to discuss other issues if they deemed it relevant. This flexibility tapped a rich vein of information (especially on sensitive issues) that had not been envisaged originally. Thus whilst the list of questions provided a consistent body of data, added relevant discussion provided a greater sense of depth. The majority of the interviews lasted between one and three hours. Only two of the interviews lasted less than an hour (K and U). The full interview was not conducted with interviewee V; the discussion was used only to clarify issues on the legal system.

The list of questions aimed to examine the attitudes of the private sector on issues related to the objectives of the study (see Appendix One). The questions are divided into five sections. The first section investigates the viability of private sector led development and the capabilities of the private sector. This section aimed to question the independence of the private sector from government spending and subsidies. Levels of efficiency within the private sector were also discussed. Questions regarding the importance of foreign partners were also used to establish how the private sector has developed through technology transfers and through learning from the partners. The goal of the second section was to examine if the business environment meets the needs of the private sector. The third section questioned private sector attitudes towards policies aimed at increasing the role of the private sector in the economy and policies for economic liberalisation. The three sections mentioned above illustrates to some degree the relationship between the state and the private sector. Section four investigates in further detail the relationship between the state and the private sector. The final section's objective was to open up debate on the main challenges faced by the private sector.

Twenty-four interviews were conducted, all of them taking place in Jeddah. The sample was selected to represent as accurately as possible the views of the different sections of the private sector. The interviews concentrated on the private sector in Jeddah as they have been historically and are currently central to the development of the private sector.

In practice, it would have been difficult to cover the private sector from different regions. Despite this, the sample covers the key elements and cross sections to represent the private sector. The sample covered a wide variety of sectors, such as banking, construction, manufacturing, industrial development companies, petrochemicals and shipping. The sample covered different types of companies, such as agencies, family owned businesses, companies traded on the stock market and companies linked to royal family members. The sample included leading members of the private sector, senior management of private sector companies, advisers and management consultants to the private sector and members of the Jeddah Chambers of Commerce.

1.4. DATA LIMITATIONS.

The study is limited to individuals linked to the larger private groups. This is the main group that is going to fulfil the aims of the government, such as diversifying the economy or getting involved in large infrastructural projects. A full consideration of the private sector will need to survey the views of small private businesses, especially due to their importance to private sector employment. The experience and need of small businesses might greatly differ to those of the larger businesses, for example in areas such as access to finance.

In most cases the interviewees were very open to discuss issues relating to the government and sensitive areas like the royal family. In one or two cases, interviewees appeared reluctant to espouse personal views with might be perceived as overtly critical of aspects of government policy.

Chapter Two

The Engine for Economic Growth: State, Private Sector & their Relationship[1].

2.1. INTRODUCTION.

The role of the private sector in Saudi Arabia is understood better if placed in a wider global context. This chapter outlines the changing role played by the private sector within economic development and the corresponding changes in the role of the state. The chapter will firstly review the historical background of development policy, with emphasis on the importance placed on the agent of development with the different policies. Secondly, it looks at the theoretical aspect of what the role of the state and the private sector in the economy should be. Finally, it will explore the quality of state intervention and the relationship between the state and the agents of growth.

There are different agents in the process of growth and economic development. These include consumer-workers, firms (entrepreneurs) and the state (Lombardi, 1996:41). Since the Second World War, different policies and the role of different agents have been popular to promote economic development. Cypher and Deitz (1997:206) suggested that perhaps this was one of the most disputed areas in Development Economics.

After the Second World War, Keynesian policy was popular in the sphere of development economics. Keynesian theories saw a strong role for government planning intervention. As many Less Developed Countries (LCDs) suffered from market imperfections, one of the roles of the government was to correct market failures. Furthermore, as noted by Shirley (1988:41), there was an underdeveloped state of the private sector and capital markets; a mistrust of multinational companies (stemming partly with their identification with their colonial past); and the faith of some influential economists in central planning convinced many governments that only they had the resources to promote economic development. Keynesian ideologies also put strong emphasis on industrialisation and export pessimism. Parkinson (1984:128) noted that this view was based on the "assumption that the terms of trade between LDCs and Developed Countries (DCs) would always favour the latter, and industrialisation was the appropriate remedy for redressing that imbalance...". Policies for development included Stages of Development Theory, Modernization Theory and Import Substitution Industrialisation (ISI) Theory. In these theories the state is important to supply the impetus to economic growth through investment programmes and planning (especially during the critical take-off stage) rather than simply relying on market forces.

From the late 1970s onwards the neo-classical school of development has gained popularity, which emphasises the strong role of markets in the allocation of goods and services and an outward looking trade policy. The role of the main agent of growth has been transferred to the private sector - which is seen to be profit maximising, opportunity seeking and responsive to market signals[2]. During the period between the 1950s and 1970s the private sector was seen to have matured (The World Bank, 1989:2). This shift has been mainly due to the failure of previous policies with strong government intervention and due to the successes of the Asian New Industrialised Countries (NICs), (the successes of the East Asian NICs has often been attributed to laissez-faire policies). This move has led towards a greater belief in market forces and the ability of the private sector to play stronger role. Private Sector Development (PDS) was also helped by the election of strongly monetarist, anti-Keynesian governments in USA, Britain, West Germany and Canada.

[1] This chapter aims only to look at mixed economies (also sometimes referred to as capitalist or market economies). This chapter will not look into policies for economic development or the relationship between the state and private sector in socialist or command economies.
[2] The private sector is seen to be a rational actor, which makes the 'best' choice with the limited means available.

The strong belief in market forces and outward looking trade policy stems from Adam Smith's laissez-faire principles as outlined in the Wealth of Nations (1779) which believed state intervention in trade and investment would reduce the wealth of a country; and Ricardo's theories of comparative advantage and free trade. As a result strong emphasis is placed on the minimal role of the government and outward looking trade policy and PDS. Thus under neo-classical theory the shift has moved from the state to the private sector as agents of growth.

This renewed faith in the market has been so pronounced that most parts of the world - USA, Western Europe, and many LDCs included - have adopted it. Even command economies have been moving towards a greater role for the market - Eastern Europe, the former Soviet Union and China under Deng Xiaoping has instituted a slow paced market reform and liberalisation policy since the late 1970s. Yabuki (1995:XXVII) noted "what awakened China from its 'socialist delusion' was not the realisation that it would never catch up with the developed countries (Japan, Europe, and the United States) but rather the examples of newly industrialising Asian economies of Hong Kong, Taiwan, South Korea, and Singapore...". In addition, the superior economic performance of the NICs has encouraged the World Bank and other international organisations to hold their experiences of development (which they have misinterpreted) as models of development for Latin America (Jenkins, 1991:37,51).

2.2. HISTORICAL BACKGROUND TO DEVELOPMENT THEORIES.

2.2.1. KEYNESIAN DEVELOPMENT POLICIES (1945-1975) - STATE-LED DEVELOPMENT.

The period between 1945 and 1975 was a period when Keynesian economics dominated development policy and legitimised state intervention. This was consistent with the stated intention of many Third World governments. Keynesian policies for growth contained a strongly interventionist stance towards development, it stressed the comprehensive development planning, co-ordination and mobilisation of scarce resources by reformist states. Belief in state intervention was boosted as the Great Depression of the 1930s had destroyed confidence in the market mechanism. Keynes suggested the antidote to depression was government intervention to stimulate the economy through fiscal policy. This was encouraged by the recent experience of the Marshall Plan, which modernised Europe in a relatively short period of time, using US financial and technical assistance. Keynesian theorists felt that the market economics of the developed north had little relevance to the economic problems of the less developed south, which was characterised by market failures. In fact some have gone so far as to suggest that this greater degree of market failure is the distinguishing characteristic of underdevelopment (Arndt, 1988:219). Thus, the belief was that the state should consciously lead and take control of the economy as markets were seen to be inadequate and inefficient in allocating resources. The private sector was seen as too weak to lead development but there were also other reasons why the private sector was seen as being inappropriate in being the main engine of growth. As noted by Richards and Waterbury (1996:175) with regards to the Middle East:

> "Throughout the region it was assumed that the private sector could not be relied upon to take this kind of resource mobilisation and planning. The least critical saw the private sector too weak financially, too close to a commercial and trading, rather than an industrial, past and too concerned with short term profit to be agents of structural transformation. More severe critics emphasised the greed and exploitativeness of the private sector, its links to interests in the metropole, and its tendency to export capital rather than reinvest profit. Private sectors might be tolerated, but nowhere, save in Lebanon, did they enjoy legitimacy. Reliance on private entrepreneurs and on the laws of supply and demand to allocate scarce resources would be wasteful, it was believed, and would not extricate the economy from its trap."

Also, in the theories discussed below, greater emphasis was placed on industry as a key factor in development. Importance was placed on the state encouraging industry and the direct ownership of industry by the state.

This section aims to cover policies for development promoted during this period – the Stages of Growth Model, Modernization Theories and Import Substitution

Industrialisation (ISI)[3]. The main focus of this section will be ISI, as from the 1950s many theorists saw industrialisation and ISI as the main theory for development and as noted by Brohman (1996:35,52) ISI has been the dominant development approach in most larger, urban countries[4].

2.2.1.1. Stages of Growth Model.

The most famous promoter of this theory was W.W. Rostow. The model claims there is a sequence of stages or steps a country has to go through to reach a level of development from underdevelopment. The five stages of development are:

- The traditional society;
- The pre-conditions for take-off into self sustaining growth;
- The take-off;
- The drive to maturity; and
- The age of mass high consumption.

These, according to Rostow, are the same in all countries and developed countries have already been through these stages. LDCs are either at the stage of the traditional society or the pre-conditions for take-off. Rostow defined the take-off stage as countries that were able to save between 15 percent to 20 percent of GNP would develop much faster than those who could not (Todaro, 1997:74). The way for LDCs to get to the later stages was to use domestic and foreign savings to increase investment rates (and to direct the increased investment to manufacturing industries); the increased investment rates would lead to accelerated growth[5]. The more a country can save and invest, the faster the country can grow. The role of the government was seen as being crucial, as Keynesians felt that neo-classical economics would not be sufficient for the 'big push' needed for the take-off stage.

[3] Other Keynesian models for development and analysing growth included Harrod-Domar model on saving and investment, Rodan-Rodenstein 'Big Push', Sckitovsky's externalities model, and Nurkse's work on industrialisation.
[4] Richards (1993:218) noted that state led ISI roughly lasted in the Middle East and North Africa between 1930/50 - 1973. This era was followed by the oil boom (mid-1970s to mid-1980s) and then the era of structural adjustment.
[5] The Harrod-Domar model illustrates how increased investment can lead to accelerated economic growth and is central to the Stages of Growth Model.

It was the role of the state to intervene in mobilising the investment capital and if required be supported by direct foreign investment and/or official development assistance (Brohman, 1996:14). The model was committed to industrialisation as well as Westernisation. Thus the main constrain to development was the relatively low levels of new capital formation in LDCs, which could be overcome by government planning and action.

Todaro (1997:74-5) outlined some of the problems related to this model. They include:

- Increased savings and investment does not automatically mean increased rates of economic growth. The Marshall Plan was successful in Europe as the countries receiving aid contained the necessary structural, institutional and attitudinal conditions to turn new capital into higher levels of output. In many developing countries these factors are missing as well as other elements such as managerial competence, skilled labour, etc.

- Economic development was seen as an internal problem rather than being a part of a complex international process. It was assumed that development would occur if the obstacles were removed and missing components (such as capital, skilled labour, better technology) were introduced.

2.2.1.2. Modernisation Theories.

The modernisation school emerged in the 1950s and was in many ways a continuation of the Stages of Growth theories as it shared many assumptions, such as social change is unidirectional and that societies should move from a primitive stage to an advanced stage for development (So, 1990:33). So (1990:261) also noted that modernity is incompatible with 'tradition'. Traditional societies were characterised by low specialisation, being rural based, self sufficiency, importance of tradition, little market exchange, rural-urban flow of goods, etc. Modern societies on the other hand, are characterised by a highly productive modern industrial urban sector, high specialisation, exchange economies, etc. The Europe and US were seen as the examples of modern and developed societies.

One of the modernisation models was Lewis's Two Sector Model. The model proposed that a country could develop by transferring the surplus labour from the rural, overpopulated subsistence sector to the modern highly productive industrial sector. The rate at which the labour is transferred is determined by the level of industrial investment and capital accumulation in the modern sector. This investment is derived from capitalists re-investing their profits. Economic growth will continue until all surplus rural labour in absorbed into the industrial sector[6]. In addition to the transformation of the production system, there had to be changes in the whole structure of the economy, including factors such as international trade. As Kennedy (1993:17) noted:

> "Change might mean altering one's own priorities, educational systems, patterns of consumption and saving, even basic beliefs about the relationship between the individual and society".

Bauer (1991:187) emphasised the role of the government for this change, as the environment in most LDCs was one of general backwardness, economic unresponsiveness and a lack of enterprise. For economic development to take place the government had a crucial role in carrying out the critical and large-scale changes necessary to break down the "formidable" obstacles to growth and to initiate and sustain the growth process. Also important in the process of modernisation was the government's ability to mobilise the elite of the country as crucial factor in the process[7]. The role of the modernising elite was one of an agent of change who would spread the ideas of modern and entrepreneurial values. The backers of this theory often advocated strong governments, as stability was more important than the promotion of democracy.

[6] Criticisms to this model are in the assumptions, which often do not fit into the general characteristics of many LDCs. For example, in many LDCs there is much unemployment in urban areas and little surplus population in rural areas. Also, capitalist profits could be reinvested into capital intensive machinery rather than using the surplus labour.

[7] Especially western educated. The western education system was important in solidifying the growing influence of the modernising elite.

2.2.1.3. Import Substitution Industrialisation.

ISI developed out of the dependency theory, which was a major school of thought in Latin America in the late 1950s, during which there was a great feeling of export pessimism. ISI was seen as the essential element in transforming the relationship between LDCs and DCs, and for LDCs to break this relationship of dependence. Through ISI, LDCs could have rapid sustained growth, increased levels of industrialisation and economic diversification, whilst also attracting direct foreign investment. Latin American countries were the first to explore ISI when their primary product export market was severely disrupted by the depression of the 1930s. This inward policy was strongly supported by Economic Commission for Latin America (ECLA) under Raul Prebisch. In Asia and Africa independence was the stimulus for ISI; by the 1960s, ISI had become the dominant strategy for economic development in LDCs.

There were many reasons for the implementation of ISI:

- Volatility of Primary Commodities - concentration of exports in primary products are risky as prices are unstable and demand is sensitive to recession.
- Declining Terms of Trade - the Prebisch-Singer hypothesis.
- Support for Infant Industries - to hasten the comparative advantage shift to industrialised products.
- Linkages - key industries have positive spill over effects for the establishment of other industries.
- Balance of Payments - ISI was also seen as a solution to the balance of payments deficit. The assumption was that it would be easier to cut imports by blocking their entry rather than increasing exports.

Bhagwati (1986:92) defined ISI strategy "as one characterised by effective exchange rate for imports (EER_m) is greater than the effective exchange rate for exports (EER_x), thus there is a bias against exports." Gillis et al. (1996:502) defined ISI as "the substitution of domestic production for imports of manufactures." As Bruton (1988:1604) noted:

> "The idea is that by replacing the imports of certain commodities by domestic production, the economy will be so modified that it will begin to be more independent, more resilient, more diversified, and better able to generate increased welfare as a matter of routine."

Cardoso and Helwege (1992:89) noted that ISI is different to just protectionism, as it aims to establish new industries and not to protect existing ones. The main tools used for implementing ISI are licensing, tariffs, overvalued exchange rates and direct government investment in key areas[8]. Generally, the first area discriminated against was consumer goods industries especially processed foods, beverages, textiles, clothing and footwear. Not only do these products have relatively standardised technologies, which were easily accessible to LDCs, but it was also believed that consumers could bear the higher costs of local production. Whilst essential goods (mainly food, capital goods and intermediate goods) were given preferences, governments also constructed plants in heavy industries (steel, cement, utilities, etc).

Thus, under ISI the role of the government was central to industrialisation, economic growth and development. Not only did the government play a direct role in the industrialisation process through the ownership and the construction of some industries, the government was also the main resource allocator. Through planning, the government had to decide which industries should be promoted through encouragement and trade protection schemes.

ISI has been highly criticised, yet despite the negative picture, ISI was not a complete failure and many countries did benefit from ISI policy. At the beginning, many countries showed good growth rates and in the cases of Taiwan and South

[8] Gillis et al. (1996:516) noted that despite that fact overvalued exchange rate not only discourages exports but also encourages imports, they were widely used by protectionist regimes that tried to replace imports by local production. They noted that this paradox could be explained by: "the interaction among the exchange rate, tariffs and quotas. When an overvalued rate exposes import-competing industries to greater price competition from abroad, these industries depend more on high effective protection from tariffs and quotas to shield them from cheap imports. Industries without such protection are unlikely to find it profitable to produce for either the home or foreign markets."

Korea, ISI was central to their success[9]. There were increases in manufacturing which needed protection to develop and would not have survived without ISI (Gilbert, 1990:21; Cardoso and Heleweg, 1992:91-92). Gilbert (1990:21) also noted that industrial employment rose dramatically and national self-sufficiency was achieved in most consumer goods. By the 1960s, all of the larger Latin American countries were producing their own textiles, processed foods, refrigerators and paints. Major steel works had been established in Argentina, Brazil, Mexico, Peru and Venezuela; and by the end of the 1960s the larger countries were assembling their own cars. Not only was there an increase in industrialisation but also a four-fold increase in the national product of the region between 1950-75, in which growth rates exceeded the most optimistic expectation (Parkinson, 1984:130). Kenya also saw high rates of growth during the ISI period – 8 percent between 1965 and 1973, compared to 4 percent in the 1980s when policy was more outward looking (Gillis et al., 1996:522). Similar trends were also seen in Taiwan and South Korea. Taiwan had impressive growth rates (6 percent) during the ISI period and manufacturing output doubled between 1952-1958, growing at an annual rate of about 12 percent (Wade, 1987:30,40)[10]. By the late 1950s a substantial industrial sector was in existence in Taiwan.

There has been much criticism of ISI both from the left and the right. Many of the critics felt that ISI had not solved many of the problems it had set out to and often made the situation worse with high costs. Most of the criticism of ISI referred to below are from Latin America, but many of the problems also applied else where[11]:

[9] Despite the success of ISI and its important role in the development of the East Asian NICs it has been highly criticised especially from the neo-classical school. The World Bank, IMF and the neo-classical school see ISI and EP as two separate policies (Chapter 5 of the World Banks' 1987 World Development Report defines 'outward orientation' as against 'inward orientation' or ISI).

[10] Increasingly ISI and EP are seen as one policy. Amsden (1979:366) and Wade (1987:35) noted EP was preceded by ISI, which was a necessary step before successful EP. One reason suggested for the better success rate of Taiwan and South Korea was the flexibility demonstrated by the governments in using flexible policy depending on the needs of individual sector and using ISI and EP simultaneously. Thus, ISI and EP are seen as compatible policies rather than opposing ones. Cheng (1990:163) argued that not only was ISI followed by EP but there was also a period of ISI during the highest period of growth. Thus, ISI was selective (rather than systemic) and designed to sustain rather than supplant national exports. The problem arises not because ISI is a failure as a policy; on the contrary, as argued above ISI has often been seen as a prerequisite to EP, but when the policy is used for longer than it should have been.

[11] For example Richards and Waterbury (1990:219-221) also noted problems such as inefficiency, stagnation of agriculture, balance of payments problems, etc. in Middle Eastern countries.

- Inefficiency resulting from ISI. Balassa et al. (1986:17,30), argued that due to ISI there was a great misallocation of resources, rather than a period of enjoying rapid growth which would have resulted through export promotion. ISI created hopelessly inefficient industries, which were a drain to the economy and which depended on huge bureaucracies for protection. For example, in Argentina due to the misallocation of resources severe bottlenecks had developed in transportation, electricity, the supply of machinery and equipment, oil and rural goods. The government had neither allowed the price mechanism to reflect these imbalances nor taken effective measures to remedy them by public investment. Also efficient activities that had export potential were often forced to buy costly inputs from inefficient domestic sources.

Another reason for inefficiency was that even with small modest protection, the domestic manufacturer could enjoy a large profit margin over world prices (Gillis et al., 1992:108, 522-523). Thus domestic producers could earn incredibly high profits, pay higher wages, or most commonly accommodate inefficiencies and higher costs, which were substantially higher than foreign competitors. The higher the effective protection, the greater the incentive to establish industry in the country and the greater the economic cost. For example, in 1969 when Chile had an effective protection rate (ERP) of 217 percent the domestic price of electric sewing machines, cycles, home refrigerators and air conditioners was respectively three, five, six and seven times higher than international prices (World Bank, 1979 cited in Cordoso and Helewege, 1992:95-6). Thus infant industries depended on the government for survival as a result of inefficiencies. In many cases the industries did not develop into a position of self-sufficiency and required protection indefinitely, as they could not compete internationally. Examples include the petrochemical industries in Columbia and the textile industry in Kenya. Often the cost of protection was greater than the benefit provided to the country.

There was the added problem that many firms had monopoly status, which also caused inefficiencies. In the case of India the inefficiencies, monopoly power, etc. also led to poor quality of products (Ahluwalia, 1985:159).

- Rent, Rent Seeking Behaviour and 'Directly Unproductive Profit-seeking' (DUP). This was another cost as a result of ISI as agents competed for the attention and favour of bureaucrats and politicians (for quotas and for import and planning licenses) to secure rent. As a result much of the rent was dissipated in the process of lobbying. Other forms included bribery and smuggling. These activities were unproductive and did not add to national output and were not invested and thus were a cost to the economy[12].

- Over Capacity. ISI was also marked by over capacity in many industries due to the limited size of the domestic market. Most production lines used technology designed to produce at a higher volume than most Latin American economies could support. Thus many plants worked at low capacity at very high costs.

- Negative Impact on Agriculture. Credit was diverted to industry making it difficult for farmers to finance seasonal costs or to invest in irrigation and equipment. Public spending in rural areas was reduced. Overvalued exchange rates reduced the profitability of agricultural exports and made it difficult to compete with cheaper food imports.

- Capital Intensive. IS industries were generally capital intensive and failed to take advantage of the abundant labour. In many countries the population was increasing and there was high rural-urban migration; generally industrial employment could not keep up with the growth of the labour force.

- Balance of Payments Problems. In some cases ISI made the balance of payments problem worse. The heavy involvement of governments in setting up the new industries and providing credit to private firms added to the public deficit. Increased subsidies and growth of the number of bureaucrats added to expenditure, whilst the failure to promote exports reduced incomes. Also many

[12] For more information on Rent Seeking Behaviour and DUP see Anne O. Krueger (1974), 'The Political Economy of Rent-Seeking Society', *American Economic Review*, LXIV, June 291-303; and Jagdish N. Bhagwati, Richard A. Brecher and T.N. Srinivasan (1984), 'DUP Activities and Economic Theory', European Economic Review, 24, 291-307. Both are reprinted in Development Economics, Volume III (1992) edited by Deepak Lal.

factories were still dependent on intermediate goods and spare parts therefore import bills increased.

2.2.1.4. Conclusion.

Under the period of Keynesian policy the government had many roles in development planning and policy, including increasing investment, directing investment into certain sectors (i.e. the main resource allocator), trade protection, creation of industry, wage and price regulation, increased taxation and spending, etc. These policies can be seen as having significant economic costs - inefficient costly production, failure of infant industries to mature, low productivity, financial deficits, shortages, rent seeking, low growth rates and poverty. Harik (1992:5) noted that the take over of the entrepreneurial role by the state had made only minor corrections to market deficiencies (as it had aimed to do) and it compounded the picture by adding new ones[13]. Government protection and ownership led to great inefficiencies due to a lack of competition and misallocation of resources as a result of domestic price distortions. Often the wrong price signals led the private sector and state planners to invest in the wrong industries using the wrong combination of inputs. Regulation also caused widespread corruption, rent (i.e. higher than necessary profit) and rent-seeking behaviour (which diverted the energies of entrepreneurs and investors from productive activity, wasted scarce resources and reduced economic growth. There was also the development of growing, wasteful, inefficient and self-serving bureaucracy involved in areas that could have been carried out more effectively through the private sector. The failure of government planning was one of the platforms of criticism of a strong role of the state and an inward looking trade strategy and was one of the reasons of the popularity of an outward looking trade strategy and a minimum role of the government that followed.

[13] Harik (1992:4) also noted that possibly one of the most damaging acts of state intervention was destroying the small entrepreneurial class in countries including Iraq, Syria and Egypt.

2.2.2. THE NEO-CLASSICAL SCHOOL OF DEVELOPMENT - MARKET-ORIENTED DEVELOPMENT.

The neo-classical school began to promote the virtues of market-oriented, outward-looking development and private development strategies even before the oil shock and the debt crisis (Gillis et al., 1996:102). The main advocates originated from the Chicago School, which included the Nobel Prize winners - Milton Freedman, George Stigler and Theodore Schultz - who argued that free markets function well in most circumstances and therefore government intervention in markets should be minimal. Other factors that also contributed to the growth in popularity of neo-classical school include failure of state interventionist policies, interpretation of the East Asian NICs success as market and outward oriented and the election of monetarist government in the West.

The main assumptions of the neo-classical school include:

- One Policy for Growth: Two different development policies are not required for DCs and LDCs which includes a strong ideological belief in free markets and free trade (in line with comparative advantage). Thus, history, culture and individual case studies are irrelevant to the development process.

- Role of Market Efficiency: market oriented development will enhance allocative and creative efficiency. Kaldor (1972, cited in Arndt 1988:219) proposed that there are two market functions - 'allocative' and 'creative'. The allocative function is to move the economy towards the optimum point on a production possibility curve (as noted above) and the creative function is to move the curve outwards.

  i) Allocative function. There is a strong belief that the 'invisible hand' of the market will allocate resources correctly, efficiently and smoothly (i.e. allocation of resources supply and demand). Thus, fewer price distortions translate to faster the growth rate. This is achieved, as suggested by the neo-classical school, by relying on free markets and minimum intervention of the state (Cole et al., 1991:257). Thus the best signals for investment (and production decisions) can be obtained through free markets. Labour markets respond to these new industries in appropriate ways: producers know best what to produce and how to produce it efficiently, and products and factor prices reflect accurate scarcity values of goods and resources now and in the future (Todaro, 1997:87).

ii) Creative function. It can be argued that the creative function is the more important one. Kaldor (1972:1240, cited in Arndt, 1988:219) mentioned that productivity-raising market forces would cumulatively promote investment and innovation through increasing returns, as explained by Adam Smith.

Thus, markets are instruments for economic efficiency (through the allocative function) and for economic growth (through the creative function). Lall (1997:77) outlined that most of the serious failures in the price mechanism in LDCs was not due to the inherent imperfections of the market mechanisms but due to irrational government interference (i.e. policy induced distortions which included foreign trade controls, industrial licensing and price controls).

- Export Promotion (EP)[14]: The supporters of EP claim that there are many advantages in adopting EP. Not only will there be static gains from inter-industry exchange but more importantly dynamic gains (Greenaway and Milner, 1993:50-53). Dynamic gains will arise due to benefits from X-efficiency gains, i.e. as industries are exposed to international competition, they will have to minimise costs, eliminate slack management, over-manning, etc. Also under EP there will be gains due to more rapid diffusion of technology, rent-seeking behaviour will be eliminated and countries will be producing in areas where they have comparative advantage. Howard Pack (cited in Gillis et al., 1996:504) also noted that there will be allocative efficiency as a result of EP: 'Where export markets exist, labour, capital and even land can be moved rapidly from low to high productivity uses without encountering diminishing returns.'

[14] There are two dimensions in the definition of EP. It can simply be the case where EER_x is roughly equal to EER_m, i.e. the bias against exports are eliminated. Thereby restoring the incentive to export

- Economic Man (the main agent for growth): People are seen as independent, rational actors (or the economic man) and behaving in a manner to maximise personal utility. Theodore Schultz[15] showed that even traditional farmers were rational decision-makers whose techniques were suited to the conditions and constraints they faced. Thus under the neo-classical school the emphasis of the engine of growth moves strongly to the entrepreneur or the individual (i.e. the private sector). Thus not only should the state be rolled back but the private sector should be encouraged. Cole et al. (1991:254) go so far as to say that neo-classical theory is 'firmly rooted in, and originates from, the individual'. Diminishing returns can be decreased as a result of the utility-maximising behaviour of individuals and the profit-maximising action of competitive firms (Cypher and Dietz, 1997:125). The role of the private sector is important in market economics as competition and the profit motive force producers (firms and individuals) to operate as efficiently as possible and to reduce costs where ever they can[16].

The importance placed on the private sector by the neo-classical school can be illustrated by the following quote, which is refers to structural adjustment and economic liberalisation in Egypt:

> "In essence, Egypt's economic reform initiative amounts to moving from a centrally planned, public-sector-dominated economy towards a competitive, market based one in which the private sector is to play a leading role. The objective is to achieve rapid, efficient, and sustainable growth - something that the past centrally planned model has not delivered. By fostering private sector development (PSD), it is expected that the living standard of Egyptians, especially that of the poor, will be raised to its potential. In other words, PSD is the core tool in the country's new development strategy." (Giugale and Mubarak, 1996:1)

Giugale and Mubarak (1996:2-3) noted four main challenges placed on the private sector growth to achieve the aims of reducing unemployment and poverty and of

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as much as to produce for the home market, this is the minimal definition for EP. Secondly, there can be 'stronger' EP regimes where EER_x is greater than EER_m (Bhagwati, 1996:92-93).

[15] In Transforming Traditional Agriculture (1964), he won the Nobel Prize partly for this work.

[16] State Owned Enterprises (SOEs) may have many more aims, other than profit, such as redistribution.

increasing investments and exports[17]. The World Bank's (1995:1) commitment to the private sector can also be seen in the quote below:

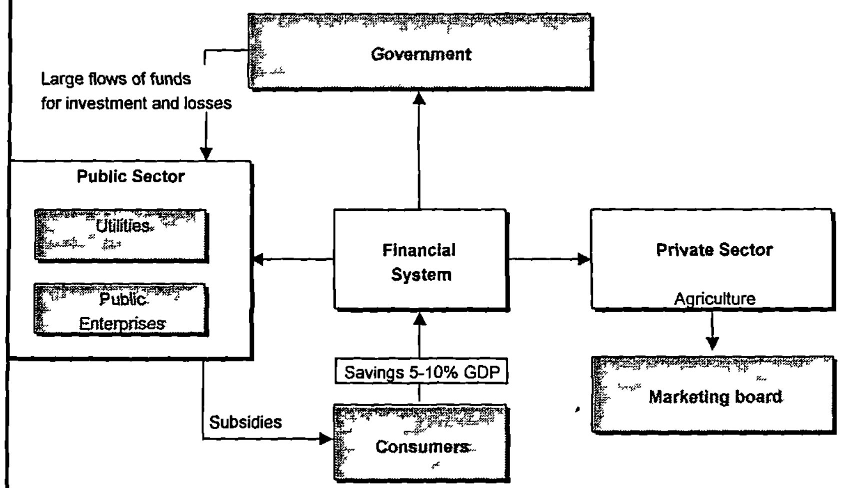
> "Many low-income countries have made impressive advances in the past three or four decades. The most successful ones have pursued market-friendly development strategies. Their private sectors have been the engine of growth, generating sustained increases in income to allow investments in broadly based and long-term development. And their governments have been focusing on macroeconomic stability, on business environment, and on basic physical infrastructure and human resources. The result: sustained high growth rates, with widely shared gains in living standards."

As a result of the beliefs of the neo-classical school, a number of policy suggestions have been made to reduce the level of government participation and liberalise the economy; and as a result increase the role of the private sector in economic development. These reforms are illustrated in Figure 2.1. World Bank and IMF policies have been based on the principles of the neo-classical school and have in turn further influenced and developed these ideas. The IMF has been concerned with the stabilisation of countries (policies designed to stem inflation and imbalances associated with it, i.e. deficits in the government's budget and in the balance of foreign payments). The aim was to compress the economy, reduce excess demand and spending by consumers and government. This would cause a sort term downturn but once the economy was stabilised it would bounce back on a stronger foundation. Stabilisation policies include devaluation, reduction in the budget deficit, restrictions on domestic credit and cuts in subsidies for public goods (Korner et al., 1986:54)[18].

[17] As can be seen in Chapter 4, Saudi Arabia has also placed greater emphasis on the private sector for growth and development, especially in increasing employment through Saudisation.
[18] Cypher and Dietz (1997:570-573) review in great detail the effects of IMF's stabilisation policies, including the results of the funds own studies.

FIGURE 2.1: IMPLEMENTING THE PRIVATE SECTOR DEVELOPMENT AGENDA.

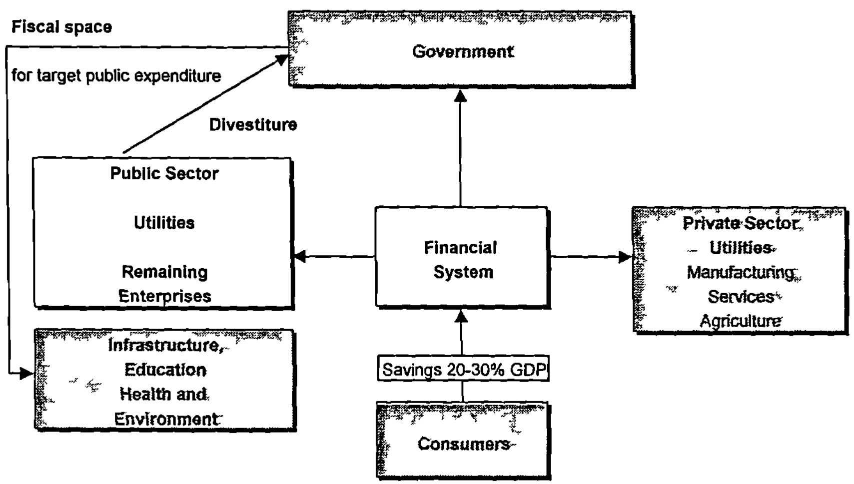
FROM DOMINANT STATE



Overbearing public sector	Distressed financial system	Harsh business environment
- Utilities and large public enterprises absorb a large shar of government resources - They crowd out investment in social sectors and infrastructur particularly in rural areas - Public enterprises and large urban consumers receive the bulk of the subsidies provided by utilities	- Fiscal deficits, public enterprises, and privileged private firms drain system - Remaining private sector is crowed out - Public sector banks dominate, with large amounts of non-performing loans - Financial repression provides little incentive for saving - Weak prudential regulation and supervision	- Weak legal system - Private sector overregulated and overprotected - Incentives and regulations unevenly applied - Agriculture oppressed by price controls and marketing boards - Goods and services provided by gov. increases the cost of the private sector by 20-30%

Source: Private Sector Development in Low-Income Countries, World Bank 1995, p9.

TO COMPETITIVE MARKETS



Reformed public sector	Robust financial system	Attractive business environment
- Rationalized subsidies; target them to the poor - Sell large public enterprises on a priority basis; use sales proceeds to retire debt - Attract private sector in utilities (requires pricing reform, competition and regulation) - Operate remaining public enterprises on commercial basis - Prune public expenditure and focus them on pubic goods	- Cut off nonperforming borrowers - public and private - from further credit; make a vigorous collection effort - Privatize banks and allow new entry by reputable banks - Build payment systems - Strengthen prudential regulation and supervision - Serve small savers and borrowers	- Reform legal and regulatory system - Reform tax and customs administration - Deregulate economy to complement liberalization of internal and external trade - Promote foreign investment and regional integration - Conduct these activities in partnership with private sector and labour

After or during the stabilisation process, the World Bank encouraged structural adjustment policies that were often linked with structural adjustment loans (SALs). The aim of these policies are to put in place well functioning markets, restructure the economy and for economic growth. Meier (1995:516-7) outlined that "A complete reform package, derived from the neo-classical paradigm, contains five components." These are:

- freeing markets to determine prices ('letting markets work');
- adjusting controlled prices to scarcity values ('getting prices right');
- shifting resources from government into private hands (privatisation)[19];
- rationalising the government's remaining role in development (budget rationalisation); and
- reforming institutions to carry out the government's new role.

Along with the stabilisation and adjustment policies mentioned above, the IMF and World Bank also advocate trade liberalisation to encourage competition (Dutt and Jameson, 1992:102-3). Meier also noted that that there were other policies to reconfirm the neo-classical viewpoint. These include (Meier, 1995:517):

- trade reform: eliminating controls over imports, reducing tariff levels, achieving a more uniform tariff structure, and subsidising non-traditional exports[20];
- reducing restriction on foreign investment;
- adjusting the exchange rate to establish and then to maintain the profitability of more export industries and to compensate for the reduction in protection from competing goods;
- financial reform: adjusting interest rates to levels above the rate of inflation, in order to eliminate the excess demand for credit, or, preferably, freeing credit markets to determine interest rates, and promoting new credit instruments and institutions;

[19] This not only reduced the role of the state as a producer but also helped reduce the public sector deficit (Balassa et al, 1986:137-9).
[20] Cypher and Dietz (1997:219) question the fact that under the neo-classical school, why government intervention is seen as negative especially when promoting the expansion of internal markets, but government policy is correct in guidance to promote external markets?

- freeing prices on farm products to encourage investment and increase productivity in agriculture;
- removing minimum wage controls and other regulations that artificially increase the labour costs, or at least permitting inflation to erode the real value of costs; and
- generally eliminating controls over prices and other wise reducing regulation that inhibit market behaviour.

Thus in line with neo-classical theory these policies aimed to reduce the role of the government (and as a result government distortions), increase the role of and encourage the private sector and establish a market system that would allow individuals to maximise their utility.

Some criticisms and failures of the Neo-classical development strategy include:

1. Severe economic costs for many countries. The Group of Twenty-Four (G-24 1987:9, cited in Killick, 1995:12) suggested this occurred as a result of adjustment policy. The costs included decline in output and growth rates, reduction in employment, excessive compression of demand, and cuts in real wages. Cypher and Dietz (1997:223) also noted that countries following neo-liberal policies fared poorly (except for Chile). They gave the example of Mexico, where the policy was successful in dealing with inflation and the government's deficit, but the economy suffered from slow growth, declining or stagnant living standards and near elimination of the small-business sector.
2. EP[21] and trade liberalisation does not automatically mean higher growth rates. Bruton (1988:1604,1616) noted that EP industries can be as inefficient as ISI. Exporting countries are more dependent on the world economy and will therefore be more affected by external shocks and recessions. There is also the fallacy of composition theory where, as LDC's exports increase so does the level of protection of DC markets. LDCs also tend to get a very small share of the international investment.

[21] For more detailed information on the failure of EP see, Singer (1988), Parkinson (1984) and Solis and Montemayor (1986).

3. Privatisation does not necessarily mean increased competition. Much depends on how well the process of privatisation has taken place and following this the level of regulation. If privatisation is badly done it can result in adverse social, political and economic consequences and it does not necessarily mean a reduction in the level of the bureaucracy (Merriam and Fluellen, 1992:58). Privatisation can also simply mean a transferral of monopolies from the public to the private sector.
4. Poor environment for private sector development. Niblock (1993:55) noted that one of the IMF's aims was to 'provide a framework within which the private sector can thrive.' Rodrik (1990:933-35) also noted the importance of private sector investment on growth, but suggested in his paper that structural adjustment/liberalisation policy creates an environment detrimental to private investment as there is a feeling of instability. Thus, the private sector would rather wait for greater policy stability and sustainability before committing resources. This situation is made worse as there is reduced government investment as a result of rolling back the state.
5. Increase in poverty and income inequality due to liberalising policies. As a result of government spending cuts there has been deterioration in health, education, etc. Cornia's (1987:21-34) study for UNICEF illustrated how child welfare sharply deteriorated in many LDCs in the first half of the 1980s when structural adjustment loans were implemented. As a result there was a reduction in child welfare, e.g. growing child and infant mortality, an increase in malnutrition and lower levels of educational attainment. .

2.2.3. CONCLUSION.

In the field of policy for growth and development in the last few decades, the main agent responsible for creating growth has changed. The feeling of 'the state can do no wrong' that prevailed after the war, shifted to a sentiment of 'the state can do no right', in the late 1970s and 1980s. Faith was place on market-oriented policy and an efficient and responsive private sector as the main agent of growth. Killick (1989:8) argued that this shift in thinking, against the role of planning, had gone too far. This view is also reflected recently by the World Bank's Development Report

(1997:23) which noted that some countries 'overshot the mark' and that 'the good was often cut as the bad'. The Report also noted that state played an important role in the 'miracle' economies of East Asia[22]. This view is a very different one to those of the World Bank especially between 1982 and 1987 when Anne Krueger was the chief economist and the World Bank's shift towards neo-liberalism was consolidated. The importance is to have an efficient and effective state free from corruption[23]; even those who believe in minimal state see some role for the state. What is important is that the state contribution to economic development matches it capabilities (World Bank, 1997:78). The next section aims to review the different models on the role of the state.

2.3. MODELS FOR THE RELATIONSHIP BETWEEN THE STATE AND THE ECONOMY: THE DEPTH OF STATE INTERVENTION.

There is a need for a certain amount of state action in society and for economic development. Where states have collapsed, economic development or growth is not viable[24]. For example, in Somalia the state collapse occurred over a long period between 1969-91. The resulting situation was a country with destroyed physical infrastructure and economic assets, private business looted, and pastoral production reduced (World Bank, 1997:159). There is a need for the state. To produce the most conducive environment for economic development, different models suggest varying levels of state intervention. This section aims to outline three models for the role of the state and the private sector in mixed economies:

- Minimal state;
- State aided capitalism; and
- State sponsored capitalism.

[22] The World Bank's faith is still strongly based on market oriented policy and the core set of policy needed for growth according to the World Bank include: 1) macroeconomic stability, 2) avoiding price distortion and 3) liberalising trade and development.
[23] Part Three of the World Bank Development Report 1997 review policy required for this to happen.
[24] The World Bank (1997:20) defined the State as: "the set of institutions that possess the means of legitimate coercion, exercised over a defined territory and its population, referred to as society. The State monopolises rulemaking within a territory through the medium of an organised government."

The first two are in line with private sector lead development, and state sponsored capitalism is where the state is the main agent of growth.

Some different views on the role of the state can be summarised in figure 2.2.

FIGURE 2.2: Function of the state*

	Addressing Market Failure			**Improving equality**
Minimal Function	*Providing pure public goods:* Defence Law and Order Property Rights Macroeconomic Management Public Health			*Protecting the poor:* Antipoverty Programmes and Disaster Relief
Intermediate Function	*Addressing Externalities:* Basic Education Environmental Protection	*Regulating monopolies:* Utility Regulation Anti-trust Policy	*Overcoming Imperfect Information:* Insurance (health, life, pension) Financial Regulation Consumer Protection	*Providing social Insurance:* Redistributive Pensions, Family Allowance, Unemployment Insurance
Active Functions	*Co-ordinating private activity:* Fostering Markets Cluster Initiatives			*Redistribution:* Asset Redistribution

Source: World Bank (1997:27)

* Different people might include different criteria in these three sections. This is only one view and not agreed by all. In the table above 'minimum function' is the least the government need to do for a well functioning market system; but this role is far greater than that who believe in the model of 'minimum state'.

Minimal state and state aided capitalism (put forward by the right) sees the private sector as the main agent of growth, through the market mechanism. As already suggested in the assumptions of the neo-classical school, the private sector acts in its own self interest and will choose rationally between alternatives to maximise its utility. Flexible individuals will also respond to the stimulus of the markets. There are many ways in which the market provides incentives for economic growth:

- the consumer seeks to increase his income;
- access to markets provides an opportunity for investors of new goods and technical improvements to profit from their invention;

- markets provide incentives for the accumulation of capital of all kinds, e.g. personal (higher skills earn more) and material capital earns income.

There is also the assumption that state interference causes distortions in prices and signals in the economy. Therefore there should be as little state action as possible, to give the individual maximum choice, in social and moral actions as well as in economic. Thus it is claimed, a properly functioning market system, without state action, would stimulate both economic efficiency and growth. There are many forms of state and planning failure that would interfere with the market functioning (see Figure 2.3). Dearlove and White (1987:1) noted that state failure is not merely rooted in state policy, but in the state itself: in its political and organisational substance and its characteristic modes of operation.

The minimal state is model that has never occurred in reality, so less emphasis will be placed on this.

2.3.1. MINIMAL STATE.

The role of the state in this model is to provide maximum possible freedom for citizens[25]. This model is theoretical and there have been no examples of countries that have developed using this model. The British State in the nineteenth century has been described as a 'minimal state' by the new right, though in practice Britain from 1830s-1850s and Hong Kong were the closest to the model. Wade (1990:333) disputed this, as the Hong Kong government's indirect action was greater than that of a minimal state.

Essentially the notion of minimal state implies that, firstly, there is a necessary or inevitable institution complex. Secondly, the functions of the state should be restricted to those that it can only perform, or those it can carry out more efficiently

[25] Plant (1991:131-2) outlines the strong emphasis placed on private ownership by Nozick. Even those who do not own private property will yield many advantages.

FIGURE 2.3: Market Failure and State Intervention.

Reasons for Market Failure

I. Market may be monopolised or oligopolistic.
II. There may be externalities.
III. There may be increasing returns to scale.
IV. Some markets, particularly insurance and futures markets, cannot be perfect and, indeed, may not exist.
V. Markets may adjust slowly or imprecisely because information may move slowly or marketing institutions may be inflexible.
VI. Individuals or enterprises may adjust slowly.
VII. Individuals or enterprises may be badly informed about products, prices, their production possibilities, and so on.
VIII. Individuals may not act so as to maximise anything, either implicitly or explicitly.
IX. Government taxation is unavoidable and will not, or cannot, take a form that allows efficiency.

Some Problems of State Intervention

I. Individuals may know more about their own preferences and circumstances than the government.
II. Government planning may increase the risk by pointing everyone in the same direction – governments may make bigger mistakes than markets.
III. Government planning may be more rigid and inflexible than private decision-making since complex decision-making machinery may be involved in government.
IV. Government may be incapable of administering detailed plans.
V. Government controls may prevent private sector individuals initiative if there are many bureaucratic obstacles.
VI. Organisations and individuals require incentives to work, innovate, control costs, and allocate efficiently and the discipline and rewards of the market cannot easily be replicated within public enterprises and organisations.
VII. Different levels and parts of governments may be poorly co-ordinated in the absence of the equilibrating signals provided by the markets, particularly where groups or regions with different interests are involved.
VIII. Markets place constraints on what can be achieved by government, for example, resale of commodities on the black market and activities in the informal sector can disrupt rationing or other non-linear pricing or taxation schemes. This is the general problem of 'incentive compatibility.'
IX. Controls create resource-using activities to influence those controls through lobbying and corruption - often called rent-seeking or directly unproductive literature in the literature.
X. Planning may be manipulated by privileged and powerful groups, which act in their own interest and further, planning creates groups with a vested interest in planning, for example, bureaucrats or industrialists who obtain protected positions.
XI. Governments may be dominated by narrow interest groups interested in their own welfare and sometimes actively hostile to larger sections of the population. Planning may intensify their power.

Source: Nicholas Stern, "The Economics of Development," Economic Journal (Sept. 1989:616).

than the private sector, i.e. public goods. Thirdly, the concept is stressed that political and economic life (a) ought to be a matter of individual freedom and initiative, and (b) should be explicitly separated, as the economy lies outside the essential function of the state. Minimum state can be defined as where the role of the state is limited i.e. little more than 'the protection of person and property against force and fraud' (Mill, 1965, cited in Evans, 1991:1).

The concept of the minimal state has its roots in various philosophical traditions. Liberal political philosophy (e.g. Locke and Spencer), Libertarian thought and now the new right.

For the state to be 'minimal' it should not[26]:

- be concerned with, or interfere in, individuals' private lives;
- intervene in the economy - which is based on free market principles;
- be involved in the provision of opportunities or promote equality;
- plan in detail (see planning failure in Figure 2.3); and
- be involved in the active redistribution of resources - Nozick follows on from Locke and argues that the poor are better off in a private property/free market society than any other system. Not only because of trickle down but also because a state directed system of redistribution and social justice would violate individuals rights (Plant, 1991:132).

The areas the state should be involved in include:

- Defence and military provision and a diplomatic section. Herbert Spencer proposed that the role of the state (in The Man Versus the State, 1884) was to have good relations with other states (especially as trade is important).
- Internal law and order against force, theft, fraud and the violation of contracts.

[26] According to Spencer this included no trade preference, taxation to support any creed, promotion of health, education and infrastructure. These views are justified by the fact government activity requires taxation which often takes too much of an individuals private property and create too much interference (Evans, 1991:2-3).

Ironically, the model simultaneously increases aspects of state power (i.e. the need for law and order, etc.), whilst restricting the scope of the states action. Also (as in the case of neo-classical development policy), a relatively strong state is needed to provide a secure base for the market.

2.3.2. STATE AIDED CAPITALISM (SAC).

State aided capitalism can be defined as:

> " ... Private-sector-led growth has evolved a philosophy of governance under which the appropriate role of the state has been to support and facilitate, rather than to manage or directly participate in, the productive sectors of the economy." (Koch-Weser, 1996:49)
>
> ".... The central role of the market, and on the private sector (in some countries the informal private sector) as the engine of growth. The role of the public sector is seen as the creation of a favourable enabling environment for economic activity. The enabling environment consists of legal, institutional, and policy framework within which economic agents operate." (Meier, 1995:525).

State intervention should be in areas such as market failure (see 2.3).

- There should be no state action that gives any sector an advantage over another; i.e. limited state control, planning, price control or regulation and no 'picking the winners' (Cypher and Dietz, 1997:216); and
- The state should only be involved in areas that where it can provide goods and services cheaper and more efficiently than the private sector (Dutt and Jameson, 1992:59). Where there are 'public goods' and a problem with free riders. Also provide infrastructure, which can be seen as a market failure.

Under SAC the state has an ideological commitment to economic development through free market capitalism. Thus once again the main agent of economic growth is the private sector but the role of the state is greater than its role in the minimum state theory. As in SAC the role of the government is to provide a capital framework to liberalise markets, to offset distortions and to provide functions that the market would not provide on its own. This view can be illustrated by the following quote by the World Bank (1995:11):

> "Increasing overall efficiency in the economy would have to start with rationalizing the public sector and determining the activities it is best suited to undertake. Experience in other countries has shown that competitive activities should be left to private sector initiatives, with the government ensuring the existence of competitive markets. In some cases – such as provision of banking and infrastructure services – the Government would have to establish regulatory systems to address systemic and monopoly risk. *By leaving competitive activities to the private sector, the Government can focus on its core function, and invest only in those activities that have the characteristics of "public goods."* Even some of those activities could be contracted out to the private sector in a way to increase efficiency."

Therefore in SAC the state recognises the existence of market distortions and failures (see Fig. 2.3), thus there is a role for the state but the role of the state is merely to offset the market distortions and not, creating overall neutrality in resource allocation. As already mentioned great emphasis is placed on the importance of the market in allocation and 'getting prices right' in the neo-classical school.

In SAC the suggested functions of the state include[27]:

1. Appropriate legal system: certain types of law enforcement is required for a capitalist framework, e.g. property law[28], company law, contract and patent law (this is especially important as without this there would be much less research and development, as this would not be profitable as companies could copy a product without the costs of developing it)[29].
2. Maintenance of macro-economic stability: i.e. intervention in/or direct ownership to control the banking system. Capitalist states control the banks for two major reasons (a) to guarantee the value of money as this is a major mode of exchange and (b) to control the rate of inflation (as monetarists feel that inflation

[27] Some of these may go beyond what is found in many neo-classical accounts.
[28] World Bank (1997:41) noted that markets could not develop far without effective laws.

is directly linked to the supply of money). Price stability is central in providing a stable framework in which the private sector gets accurate signals for efficient allocation of resources.

3. Offset or eliminate price distortions: this is due to excess market power, e.g. antitrust regulation to break-up or to check monopolies. As for a free market one needs perfect competition - there are many buyers and sellers in a market who are price takers and not price makers, i.e. they do not have any economic power.
4. Provision of physical infrastructure: this is seen as a possible area of 'market failure', as the market will not provide it to an adequate level especially when there are high fixed costs in relation to variable costs, e.g. ports, etc. Once established these do not have to be run by the state and can be privatised.
5. The supply of 'public goods': public goods will not be provided or produced by the private sector as they will be undervalued and there might also be a problem of free riders. In this category Wade (1990:11-12) included national security, education, basic research and credit access for small companies, market information and environmental protection. Although many of these points will be highly disputed by the neo-classicists.

The next three points can be disputed and seen as too much intervention by the government, but others have included them into the role of the government in SAC:

6. Action to ensure an adequate quality of labour: this is required for the capitalist system, e.g. health, education and training (World Bank, 1997:52, Meier, 1995:529 and The Egyptian Business Association 1996:16). The government does not have to participate directly in these areas but the government can for example make education and vaccination available, yet these can be provided by the private sector.
7. Redistribution of income to the poorest: Wade (1990:11) added to this list the role of the government so that basic needs are met. This point can be disputed as the role of the state is just for providing a framework for capitalism and not an

[29] Williams (1991:181,183) also argues that research and development should be encouraged by government which is central to economic and cultural development as markets are likely to fund only a very small amount.

altruistic role as this can distort the labour system. But it can also be argued that some redistribution of income is necessary so that discontent does not threaten the capitalist system, but distribution has to be at a minimum to keep social harmony.

8. Protect the environment.

2.3.2.1. Implication of Minimum State and SAC.

These two models of the reduced role of the state have been very much in fashion since the late 1970s and have greatly influenced the neo-classical school and policies such as structural adjustment. Many studying the NICs attribute the successes of the East Asian NICs to the minimal role of the government[30].

Hong Kong which has done better than the more planned economies has been used as an example of SAC and can be argued to be the closest example to a free market economy. The government basically performed a custodian role (providing a stable administration and macroeconomic regime) and it had no control over imports, foreign exchange, foreign investment, wages and prices. Also tax revenue to GDP was very low especially compared to other East Asian NICs (Hofheinz and Calder (1982) cited in Wade, 1990:332). Lall (1994:74) added that that the state did not intervene in the products market, either to support industries or to protect manufacturing but did intervene "functionally" to provide education and training[31], subsidised loans to manufacturing, export information and support services. But it can be argued that Hong Kong is a special case study and its experiences are limited as models to other countries. Jenkins (1991:38) argued that Hong Kong is a small city-state with no hinterland. It has also been argued that there was a high degree of corporatism, with links between private organisations, banks, trading companies and the state. This model of SAC has also been challenged by Wade (1990:333) argues that Hong Kong is not a 'pure' free market economy. If it did develop by SAC it seems that it has recently been changing its policy towards intervention or

[30] Rees Jenkins (1991 and 1992) and Wade (1990 – chapter 3) reviews the literature that interprets the success of the NICs as a result of minimal state intervention.

'development support'. The government has been giving support to the electronics industry, where the government thinks industry should be focusing. The government has also been employing consultants to 'picking winners' and to investigate the help they need. This would change resource allocation and would be more in line with state sponsored capitalism.

Thus, the experiences of the NICs have often been interpreted as having minimal state intervention and this model has been promoted to other countries as models of development (although the World Bank is changing its view on this). Fajnzylber (1981:111-112) argued that this view as not only will it have disastrous effect on the developing economies but will also prevent us from understanding the real factors behind industrial growth and change.

2.3.3. STATE SPONSORED CAPITALISM (SSC)- THE STATE IS THE MAIN AGENT OF GROWTH.

SAC and SSC can be clearly distinguished. Whereas SAC sees efficient resource allocation as the engine of growth and naturally occurring through a free market, the important factor for SSC is capital accumulation for growth. In SSC the primary commitment of the state is for development and not to the free market. The emphasis moves away from the private sector as the main agent of growth to the state, although good links and support of the private sector/capitalist class is still important (but the government can go against them when it is beneficial for development). Thus the role of the state is to take action by policy that will achieve development as quickly as possible. As Wade (1990:334; 1990b:328) noted, this even included the government getting prices wrong (by market criteria) so as to change the way in which the decision-makers respond, or to use non-price methods to alter the behaviour of market agents. Central to the idea of SSC for development is the high level of efficient productive investment (as capital access is the key to growth). As such new technology is quickly put into production, more investment is

[31] Lall (1994:75) noted that the functional intervention in education was not as intense as in the larger NICs.

allocated to key industries than without government intervention and there is a need for industries to be internationally competitive.

Also important to SSC is the type of regime. States in the model of SSC generally tend to be 'hard' or 'soft' authoritarian states, with corporatist relations with the private sector. So as to suppress pressures from below and to give the state room to manoeuvre, policy is aimed at long term development and not short term profit maximisation.

Two examples of SSC will be illustrated – Taiwan and France (in the post war era).

2.3.3.1. Case study - Taiwan.

In the post war era Taiwan has seen rapid economic growth: real GDP grew by 10.6 percent a year from 1965 to 1979 (Wade, 1987:30). Wade (1990b:236) also noted that one of the most striking features of Taiwan's development was its 'industrial deepening' in production. Along with the rapid economic growth there has also been development improvements in literacy rates, life expectancy and income distribution. The role of the state has been central to industrial development, often the industries that developed were not down to international comparative advantage (as proposed by the neo-classical school), but due to the government 'creating' winners and leading industries. The major ways the government sponsored development were:

1. Land reform after the war was important for a number of reasons:
   - it provided a labour force for industry;
   - it extracted a surplus out of the countryside for investing in industry (i.e. removed future wealth accumulation in large land holdings);
   - it allowed the agricultural sector to produce enough for domestic consumption and export. This provided valuable foreign exchange for inputs for manufacturing industry, as there was a balance of payment problem until 1967 (Amsden, 1979:363);

- it also removed an elite who might have blocked future government action; and
- agriculture also demanded industrial inputs such as chemicals and tools and was a market for consumption goods.

2. The government affected the relative prices so as to enhance industrialist's profits and encourage more investment. The main way of fixing lower industrial prices were lower industrial wages, curtailed union power (so as not to put prices up), fiscal investment and concessional credit to lower costs of production and to drive investment firstly to heavy industry and then electronics and machinery.
3. State enterprise was the largest in the non-communist world. In the 1950s the state established new industries - fuel, chemicals, metal processing, textiles, fertilisers, glass, plastic and cement. Once set up they were either run by public enterprises or handed down to businessmen. In 1952, 56 percent of industrial production was in public corporations (Amsden, 1979:367). Even though in the 1980s public enterprises were under 25 percent and there were many more foreign firms, the government still controlled which companies came to Taiwan.
4. The state owned the banking system as capital and securities markets were weak. Firms depended heavily on banks for financing and the government controlled the industries that received the financing.
5. The government moderated the impact of foreign competition. Even through the period of Export Promotion Industrialisation the state still continued protecting infant industry. Rather than having a blanket policy, protectionism was very selective at a sectoral level. Between 1937 and 1976 the percent of products with import control remained almost the same, at 36 percent and 41 percent respectively. Thus the government protected infant industries but once the industry was internationally competitive there were strong incentives to export. Therefore an outward oriented policy does not necessarily mean a reduced role for the government, and export orientation was not achieved by free markets. There was also an emphasis on large scale plants to obtain scale economies and to be internationally competitive (i.e. greater production than the domestic market needed) so there was a need to export. Export policy was very flexible, for example in 1969 the effective protection rates varied from 0 percent to 100 percent, some imported manufactured received an EPR of 133 percent (Lee and

Liang 1982, cited in Wade 1990:114-5,117). There was EP and ISI at the same time, thus SSC can be employed in a flexible manner, taking account of changes in domestic and international demand patterns.

6. Promoting exports, by subsidies and allowing exporting companies to have necessary inputs without any protection that would increase costs.
7. Promoting technology acquisition from trans-national corporations building a national technology system.
8. The state was very successful in directing foreign investment into linkages with high potential (Schive and Maumdar, 1986, cited in Wade 1990:304).

Thus the government gave a significant amount of leadership to make a sizeable difference in investment and production patterns, and thus Taiwan is a clear case of SSC.

Does the East Asian crisis, which started in Thailand and soon spread to other south-east Asian countries mean that the State Sponsored Capitalism model is no longer relevant? Even before the crisis there were already works by Paul Krugman and Alwyn Young that criticised the "miracle" and said that it was not sustainable, as it was not due to total factor productivity (TFP) growth but rather to an intensive use of inputs, e.g. a high growth rate of capital (high rates of investment). The East Asian crisis does not necessarily mean the end of the model. The IMF (1999:19) in their World Economic Outlook suggested that the crisis seems close to bottom of the deep economic slump and that in Korea the recovery has already begun. Wolf (1999:18) cited Goldman Sachs who forecast that the GDP in Korea will grow by 7 percent this year (after a decline of 5.8 percent last year)[32]. Whilst the turnaround is less dramatic elsewhere there are indications of recovery – Thailand's economy is expected to grow by 1.5 percent (the economy shrank by 9.4 percent last year), Malaysia by 3 percent (last year the GDP shrank by 7.5 percent) and Indonesia has seen positive growth since the end of last year (GDP shrank by 13.7 percent last year). Wolf (1999:18) added that the adjustment has been extraordinary and that the "notion that these crisis-hit economies were basket cases was quite ludicrous." The IMF (1999:19) attributed the progress towards economic recovery to "financial

[32] In addition the Economist (21/8/99:16) noted that South Korea's year-on-year industrial production was up by 30 percent in 1999. This is another indication of South Korea's recovery.

stabilisation, with strengthening exchange rates allowing monetary policies to be relaxed further; by supporting fiscal policies; and improvements in confidence domestically and abroad."[33]

Many economists, such as Stiglitz (senior vice president and chief economist of the World Bank) argue that most of the East Asian countries have followed sound macroeconomic policies. The crisis had more to do with private sector debt than the failure of macroeconomic policy or a build up of sovereign debt[34]. Understanding Global Issues (1999:11) estimated that unhedged private foreign debt of East Asian companies in mid-1997 was estimated at over $100 billion. These views can be illustrated from the following quoted from Stiglitz (1999):

> "The problems - including misallocation of investment, unhedged short-term borrowing and, in Korea, very high debt-to-equity ratios - are rooted in private-sector financial decisions.
>
> ...Some of the most important features of East Asia's development were sound macroeconomic fundamentals: high savings, a commitment to education, technologically advanced factories, a relatively egalitarian distribution of income, and an aggressive pursuit of foreign exports. All of these elements are still present, suggesting that East Asia's economic prospects continue to be bright."

Stiglitz (1999) added that many of the problems these countries face today arise not because governments did too much, but because they did too little – and because they themselves had deviated from the policies that had proved so successful over preceding decades. In several countries, for instance, poorly managed financial liberalisation lifted some restrictions, including restrictions on bank lending to real estate, before putting in place a sound regulatory framework. Lee (1998:24) noted a similar point that in the case of Korea the crisis was not caused by government

[33] Wolf (1999:18) noted a similar point that central to resolving the crisis was the exchange rate policy. The worst hit countries defended their exchange rates to a "point of exhaustion of their foreign exchange reserves" – the subsequent fall helped their recovery. Initial IMF policy focused on austerity programmes to reduce current account deficits, high interest rates to bolster currencies and wide ranging reform to remove crony capitalism. The Economist (21/8/99:17) noted that the decision to abandon the restrictive fiscal policy (as initially suggested by the IMF) was central to recovery, although this came with the price of increased budget deficits. South Korea and Indonesia will be running budget deficits of 6 percent of GDP in 1999, with Thailand and Malaysia not far behind.

involvement but the trend towards liberalisation and globalisation from the 1980s. This undermined the industrial policy regime and as a result the chaebols (business groups) tried to dominate the domestic market without government involvement. Thus the problems developed as a result of the abandoning of the model.

There have been many theories put forward for the causes behind the crisis. Noland et al, (1998:4,21) distinguished two major views:

1. The fundamentalists – who see the origins of the crisis in the structural weakness in the domestic financial institutions. This group included Krugman; Corsetti, Presenti and Roubini; and Goldstein.
2. The panic theorists – who claim that the economic fundamental in Asia were essentially sound and that the crisis was largely a product of abrupt expected changes by domestic and foreign economic agents. Which could explain the regional domino-like pattern of the crisis. Those associated with this view include Sachs and Stiglitz.

Noland et al., (1998:4,21) noted that both these two views are relevant. In his discussion of the origin and the nature of the crisis, he writes:

> "The Asian "miracle" was and is real. These are strong economies that have performed well – indeed, spectacularly – in the past, and there is ever reason to expect them to perform well in the future.
>
> The financial sectors in the Asian economies, however, did not evolve in parallel with economic performance. In most of these countries, the financial systems have major structural weaknesses – banks that are 'captives' of major industries; extensive government involvement in investment allocation decisions; underdeveloped and unregulated stock markets; 'crony capitalism' and corruption in bank operations; and general lack of oversight and transparency in the working of the financial system. These weaknesses are fundamentals and would have, at some point, caused major problems, since they interfere with the ability of the financial system to serve its role as an effective intermediary between savers/investors and producers with profitable investment opportunities and needs for working capital.

[34] Although is an area of much debate, as Jomo (1998:21) noted "The recent financial and currency crisis in Southeast Asia suggests that the Southeast Asia economic miracle has been built on some shaky and unsustainable foundations."

> World Capital markets over invested in the Asian economies for a number of reasons. There were serious domestic problems in Japan, which led to major outflow. At the same time, US interest rates fell, making foreign investment more attractive. Exchange rates were favourable for investors. There is also a well-known herd mentality among institutional investors that leads them to behave similarly. Finally, the nature of the investment changes, moving to more short-term, portfolio investments and away from long-term investments in productive capacity.
>
> The financial institutions in Asia were not capable of effectively and productively intermediating this increased inflow of foreign investment. The increased flows served only to exacerbate the underlying structural weakness of the systems.
>
> A crisis was inevitable. There was panic, and it was not just any panic. Although increased liquidity is undoubtedly required, re-establishing confidence will require more than that. The Asian crisis is thus different from the Mexican crisis of 1994-95, which was largely a liquidity crisis.
>
> Adjustment to the crisis will require significant changes over the medium to long run, Major reforms of the financial system in most of these countries must occur ..."

Although, government intervention is not totally blameless in the East Asian crisis – the past economic performance and the successful adjustment and recovery means that the East Asian model is still relevant in the debate of state intervention and economic growth.

2.3.3.2. Case study - France, Dirigism.

Dirigism is the name given to French State sponsored planning in the post war period. In 1945 France did not have a modern capitalist economy and a very primitive capital market. Thus the state stepped in to provide this and to direct and lead social and industrial development. It was a clear case of SSC as the state guided markets and changed resource allocation that through 5-year plans. Planning was very successful as annual growth rates were between 4-5 percent. The plans were made by a small group of autonomous technocratic elite with trained planners and businessmen who worked with the different ministries, so they were free from sectional interest groups (Holmes, 1987:13). Holmes noted some areas of state involvement:

- State control of the banking system in the absence of a flourishing private capital markets. This meant the state was able to have a direct influence over firms' choice of products and technology for investment; and
- Mergers were encouraged and promoted through the close personal links that existed between the political and the business elite.

One problem of the East Asian NICs model is that it is not transferable to DCs as the state was authoritarian, thus Dirigism can be put forward as an alternative model for these countries, especially when they are facing de-industrialisation. In the second 5-year plan (1954-57) special attention was given to industries in decline, to re-modernise them and rejuvenate them, retain employment and give aid. Thus, states can help companies by giving them a new direction and 'picking winners' or directing them to new areas rather than leaving them to market mechanisms to find a new comparative advantage.

Dirigism has been criticised by the neo-classical school. Lal (1997:74-8) claimed that it was especially detrimental for LDCs because it is important to have good data (as France did) for extrapolations, which many LDCs do not have. This failure is much worse than market failure as it is better to have many economic men investing in the future rather than one state policy, which is similar to putting all the eggs in one basket. At the best input-output tables show what is being produced at the moment, they are too unreliable to base the future on and this is combined with other forms of government failure. Lal (1997:74-8) claimed that it was better to have institutions to support the market (i.e. SAC) which was also a cheaper alternative.

2.3.4. CONCLUSION.

Even though some models ask for a smaller size of state intervention this does not mean a weaker state. It is important for state activity to be efficient and free from corruption. Cammack (1991:152) noted that perhaps one of the central differences in the different levels of success in economic development between Latin America and the East Asian NICs was 'the capacity for effective intervention.' Therefore the key factor is not the size of state intervention but the quality of the intervention.

Thus when looking at the agents of growth perhaps it should not be seen so much as the state versus the private sector, but rather as a partnership with strong lines of communication amongst the two. Said et al. (1997:254-255) stressed the importance of having both public and private involvement simultaneously to develop the capabilities of the private sector – with private sector and industrial maturity the government's involvement can be reduced. The next section aims to investigate how different models of the state effect the relationship between the state and the economic structure.

2.4. MODELS FOR THE RELATIONSHIP BETWEEN THE STATE AND THE ECONOMY: THE QUALITY OF INTERVENTION.

This section aims to review the relationship between the state and how it relates to the economic structures, in particular the private sector. The relationship is central to the process of development as 'who influences the state', affects the policy implemented by the state, and also the ability of the state to carry out its plans (including liberalisation initiatives). As Merriam and Fluellen (1992:65) noted:

> "Good politics does not always make for good economic policies. Popular discontent with the removal of subsidies, for example, has sometimes resulted in the government backing down or restoring repressive measures."

The relationship between the state and the private sector can be complex, contradictory and dependent on the type of regime (Ayubi, 1992:50-51). A few examples of this relationship from the literature is cited below:

- In the process of economic liberalisation, the state bourgeoisie wants some expansion of the private sector but does not want a too great reduction of the state sector. The private sector on the other hand lobbies for greater liberalisation and privatisation but does not want full liberalisation, as it still wants state subsidies, protection and support (Ayubi, 1992: 51-52). Harik (1992:15) also noted that private business men are largely opposed to structural adjustment programs.

- The above point can be illustrated by the case of Saudi Arabia. The business elite blocked liberalising policies that affected them and then successfully lobbied the government to implement a series of privatisation and protective measures (such as protection against foreign competition in commodities and contracts) resulting in new and expanded state guarantees of private sector profits (Chaudhry, 1992:159-161).

This section aims to outline the different theories of the state and its relationship with the economic structure. Evans (1995:11) suggested that there were three types of state; these will be outlined in the next section:

- The predatory state - where there are high levels of unearned income (through rent seeking behaviour, etc.) through out the state structure;
- The intermediate state - where there are inconsistencies in state, i.e. where there are patches of predatory and corrupt behaviour but also areas of efficient behaviour; and
- The developmental states - where development is central to the goals of the state. Evans suggested that certain factors are important for the developmental state. Firstly, autonomy to carry out its policies. The type of rule aids often autonomy, Cammack (1991:153) noted that strong authoritarian rule was central to the success of economic development in East Asia. Secondly, strong links with the private sector and other sectors who are needed for the transformation of the economy (Evans, 1995:59). Roumasset (1992:7) placed strong emphasis on partnerships with the financial sector.

Rentier economies will also be discussed, as this is the model most often used to characterise the Gulf States. The rentier state will have an effect on the quality on the state intervention as well as the state's relationship with the economic structure.

2.4.1. THE PREDATORY STATE.

The predatory state is often a view put forward by the right, which interprets the state as being inefficient and self-seeking[35]. Cypher and Dietz (1997:226) defined it as follows:

> "The predatory state is one wherein the appropriation of unearned income via rent-seeking has become endemic and structural. Everything is for sale: the courts, the legislature, the military, the taxing authority, etc. Government employees use their authority to maximise, in the shortest possible time, their accumulation of wealth. Political offices are held not for the reason for providing services to a nation, but for the purpose of individual gain in a society that may offer few alternative avenues to wealth accumulation."

The basic characteristics of a predatory state is where the state extracts at the expense of society, undercutting development even a its most narrow sense of capital accumulation (Evans, 1995:12). He went on to say that a predatory state lacked the ability to prevent incumbents from pursuing their own goals. Individual maximisation takes precedence over the pursuit of collective goals. Kruger (1993:53) mentioned that even if the state aims to achieve efficiency and growth, there are many obstacles that prevent this outcome (such as poor economic planning, the bureaucracy may have different goals, etc.).

In the predatory state not only is bureaucracy that is corrupt and self-seeking but the private sector also attempts to benefit. Gunnarsson and Lundhal (1996:264) cite Bhagwati (1982) in saying there are two ways that the private sector (individuals, companies, lobbies, etc.) can take advantage of the predatory state:

- lobby to capture rent, revenues and quotas; and
- lobby so that the government allocates resources in a way that would benefit them.

Gunnarsson and Lundhal (1996:256) also note the section of the private sector that is most likely to be successful in lobbying the government is 'the prevailing class.'

Thus the Right feel (as indicated in the previous two sections) that the state is inefficient, and rent-seeking behaviour of the bureaucracy and private sector negatively effect resource allocation and growth.

Evans (1995:43-45; 1992:149,151) used Zaire under Mobutu (who took control in 1965) as an excellent example of a predatory state. The state was controlled by Mobutu and a small number of his closest kinsmen, who held the most lucrative position (e.g. key positions in the Judicial Council, the secret police, the Ministry of Interior, etc.). During his period in power, Mobutu and those closest to him amassed vast personal fortunes from revenues generated from mineral exports. Over the next 25 years Zaire's GDP per capita fell at an annual rate of 2 percent a year and Zaire fell towards the bottom of the world hierarchy of nations. The absence of a coherent bureaucratic apparatus was a result of personalism and a highly marketised administrative apparatus. Young (cited in Evans, 1995:46) quoted Mobutu himself characterising the system:

> "Everything is for sale, everything is bought in our country. And in this traffic, holding any slice of public power constitutes a veritable exchange instrument, convertible into illicit acquisition of money or other goods."

Defining the level of autonomy of the state can be problematic (Evans, 1992:151):

> On one hand, since the state as a corporate entity is incapable of formulating coherent goals and implementing them, and since policy decisions are up for sale to private elite, the state must be seen as completely lacking in autonomy. This lack of autonomy is what permits pervasive rent seeking to prevail. At the same time, however, the Zairian State is strikingly unconstrained by society. It is autonomous in the sense of not deriving its goals from the aggregation of societal interests. This autonomy does not enhance the state's capacity to pursue goals of its own, but rather remove critical social checks on arbitrary rule.[36]"

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[35] John Waterbury (1991:14) indicates the state bourgeoisie works in solidarity to further its own aims.

[36] In some cases the separation between state and society as been too great, where the state is highly autonomous but has very little local social roots, e.g. Philippines under Marcos which bought very little social change.

2.4.2. THE DEVELOPMENTAL STATE.

Evans gave the example of Taiwan and South Korea as examples of developmental states (1995:47-51; 1992:151-151)[37]. Evans (1995:44) noted that process of industrialisation and the success Taiwan and South Korea was a result of state involvement, and these states were able to:

> "... foster long-term entrepreneurial perspectives among the private elite by increasing incentives to engage in transformative investments and lowering the risks. These states were not immune to using social surplus for the ends of incumbents and their friends rather than those of the citizenry as a whole, but on balance the consequences of their actions promote rather than impede transformation."

Evans (1995:12) concluded that Taiwan and South Korea both share crucial features that were central to the industrial transformation and their classification as developmental states. A coherent, competent bureaucratic organisation which was due to a highly meritocratic recruitment process and long-term career rewards which create commitment. In addition, along with high administrative capacity, the state restricted its intervention to "strategic necessities of a transformative project, using the power to selectively impose market forces" Evans (1992:164). These factors resulted in a sense of "corporate coherence" which gave the organisations a level of autonomy[38]. Rueschemeyer and Evans (1985:68) noted the importance of autonomy:

> "... a certain degree of autonomy from dominant interests in a capitalist society is necessary not only to make coherent state action in pursuit of any consistent policy conception possible, but also because some of the competing interests in the economy and the society, even structurally dominant ones, will have to be sacrificed in order to achieve systematically required 'collective goods' that cannot be provided by partial interest."

[37] Evans (1995:47-48) quoted Chalmers Johnson (1982:27-28) in defining Japan as a developmental state which was the central element in explaining the country's post World War II economic miracle; and Wade as defining South Korea and Taiwan as developmental states.
[38] This was also noted by Cammack et al. (1988:59,66-67).

Autonomy suggests that the state can 'stand alone' and beyond the controlling reaches of vested interests (who would aim to control the state and use this power for their own short term benefit) and work towards collective goals. As already seen earlier, the state in Taiwan weakened the elite through land reform and placed a strong authority over local capital. Also the labour market was kept free, as labour unions, organisations and legislation was not allowed. In the case of the developmental states Evans also stressed the "embeddedness" of the state, as well as autonomy was crucial to their success (Evans, 1995:59; 1992:164). Embedded autonomy where the state, society and the private sector continually interacts in a positive manner through joint ventures and negotiation of goals and policies. This process is easier if the society has many cleavages through it and the type of regime i.e. an authoritarian regime. Embedded autonomy is vital for the developmental nature of a state, as a purely autonomous state would lack sources of information and an ability to rely on the private sector of the implementation of the goals.

2.4.3. THE INTERMEDIATE STATE.

Most developmental states have a degree of elements of the predatory and developmental state models. Evans (1995:60; 1992:166) gave the examples of Brazil and India as intermediate states and the nature of the state varied during different periods. Both India and Brazil have seen a transformation of the economy as a result of state intervention. From the 1950s to the early 1960s India had a respectable level of growth and produced substantial levels of industrialisation. In the 1980s, India again saw a rapid level of growth after a slowdown in the 1970s. Brazil in the post war period saw high growth rates followed by the "Brazilian Miracle" in the 1970s. The difficulties faced by Brazil in the 1980s undercut its claim to be a developmental state.

Evans (1995:72-73) noted that intermediate cases of Brazil and India illustrate the different blends of autonomy and embeddedness and their relationship with society. In the case of Brazil the state apparatus lacked "overall coherence and cohesiveness". Embeddedness was difficult to achieve especially as a result of the close relationship between the state and the traditional oligarchy. This relationship "turned modernising projects into sustenance for traditional powers." This was not always the case. As noted by Evans (1995:73):

> "Brazil's industrial success involved dense ties, not insulation. Pockets of efficiency with the state apparatus sometimes had the sufficient cohesion and coherence to draw industrialists into joint projects with impressive results."

In the case of India the bureaucracy was designed not to be too close to the social structure to avoid the pitfall of being too closely linked to them. As a result "inventing" the private sector as a partner in industrialisation process was difficult. The industrial success in the 1950s was a result of autonomous government action in building industries or constructing dams. As a result of the lack of ties between the state and the society, new industrial entrepreneurship of the private sector did not develop, and the success seen in Brazil in the 1970s did not take place in India. Evans (1995:73) concluded by noting that in the 1980s there was a negative convergence of the between the two cases, and:

> "In both cases, declines in the state's ability to perform as a coherent corporate actor and the erosion of the effective state-society ties went hand in hand, demonstrating once again the capacity depends on putting autonomy and embeddedness together."

2.4.4. THE RENTIER STATE.

As previously noted, a rentier state will have a different quality of state intervention and relationship with the economic structure. This section will investigate these ideas. Mahdavy (1970) developed the concept in reference to Iran. He noted that the phenomenon is not new and not always linked with oil, e.g. as with payment for the passage of ships through the Suez Canal (Mahadavy, 1970:429). To understand rentier states it is first important to define rent. Economic rent can be defined as "the difference between the return made by a factor of production and the return necessary to keep the factor in its current occupation" (Bannock, Baxter and Davis, 1992:129). Beblawi (1987:11) defined a rentier economy as:

> "an economy substantially supported by the expenditure of the state whilst the state itself is supported by the rent accruing from abroad."[39]

and a rentier state as:

> "any state which derives a substantial part of its income from foreign sources and under the form of rent."

There is therefore a feeling of "unearned income". In addition, Beblawi (1987:52,55) emphasised the development of a rentier mentality – where the trade and business sector are often placed to take advantage of the economic advantages due to the law (such as the need for a foreign partner for foreign companies).

Arab oil states provide an excellent example of rentier states as the oil revenues received by the government have very little to do with the productive efforts of the community and export prices are totally divorced from the cost of local production. In addition, Beblawi (1987:53) noted oil revenues are a large percentage of the budget revenue and exports, a small fraction of the population are involved in the generation of the oil revenue, and oil revenue accrue directly to the state. Luciani (1990:73) illustrated this point with an example from Saudi Arabia: in a year of weak petroleum prices (1984), oil revenues accounted for 64 percent to total revenue and income from investment abroad generated another 18 percent. The features mentioned above can be further illustrated in the following chapter.

With the increase in oil prices the role and the nature of the state changes (Beblawi, 1987:54-5). Firstly, the role and the strength and role of the state is greatly increased, the state is the prime mover in the economy. Secondly, state is the allocator/distributor of oil wealth in the economy. Thus the main focus is how to allocate its resources, as the state is independent from the domestic economy[40]. As noted by Beblawi (1987:53):

[39] Revenue from foreign sources with a rent component does not always accrue to the state (Luciani, 1990:70). As a result Yemen can be considered a rentier economy due to workers remittances.

[40] The recycling of oil rent within the domestic economy through the state budget can result in secondary types of rent (Abdel-Fadil, 1987:86), for example as a result of project expenditure and transfers and welfare payments.

> "The conventional role of the state as provider of public good through coercion – mainly taxation – is now blurred in the Arab oil states by its role as provider of private favours through the ruler's benevolence. Public good and private favours have gone together in defining the role of the state."

There is first a distributor of favours (such as land) and then public goods and services (e.g. defence, health, education, etc.). *Finally, the state is the major* employer.

With the increased inflow of rent the state-society relationship was transformed, which Chaudhry (1997:192) argued was a result of the fiscal autonomy of the Saudi State. Generally in the Gulf States, pre-oil boom the state was seen as being weak, ill defined state with little effect on the majority of the population. With the inflow of the oil revenues, the role and autonomy of the state was expanded and strengthened, thus by the early 1980s the state was seen as being strong and the merchant class as politically weak. As a result of the oil boom, the bureaucracy reduced its extractive, regulatory and information-gathering capacities, whilst increasing its distributive and productive capacity (Chaudhry, 1992:146 and 1997:190-1). Due to the Nejdi nature of the distributive bureaucracy a Nejdi business class emerged. Whilst the merchant classes of the Hijaz, Mecca, Medina and the Eastern Province (who were previously required to hold legitimacy) declined in importance. With oil money the state could create a new merchant elite in the Najd (where the royal family comes from).

With the fall in the oil prices in the 1980s, weaknesses in the strength and autonomy of the state appeared, as the state was unable to implement reforms that would have harmed the merchant elite. Chaudhry (1997:169) illustrated the importance of the downturn by noting the Saudi oil rents dropped from over \$110 billion in 1981 to \$17 billion in 1986. In response to the crisis the government tried to re-institute taxes, cut government spending and regulate financial institutes, but the business class was able to oppose these measures and gained even more entitlements (Chaudhry, 1997:270). Chaudhry (1992:159-160) outlined the policies blocked by the private sector as well as the increased entitlements:

"All those policies which affected the entrepreneurial elite – including corporate and individual taxes, *zakat* payments, progressive fees on the consumption of electricity, water and gasoline, the new Labour Transfer Laws (requiring businessmen to get authorisation for the import of foreign labour), the Saudisation Law (requiring businesses to Saudi Labour instead of foreign workers), the new Social Insurance Laws (requiring businesses to pay social insurance payments previously covered by the state budget) and the withdrawal of agricultural subsidies – were successfully opposed by the Riyadh Chamber of Commerce and informal contacts and unceremoniously withdrawn. In contrast, minor fees on passports, document verification, and revised customs duties, all of which effected either low-income consumers or foreigners, were implemented.

Apart from blocking liberalization policies that would have cut into profits, the Saudi private sector united to demand broad-based protective measures against foreign competition in commodities and contracts. Like other dormant pieces of legislation, protective laws already on the books had never been implemented during the oil-boom years and only began to be applied during the recession...

Fantastic as these demands were, particularly in light of declining state revenues and the degree of government promotion already enjoyed by local industry, the government formally met all of them. In 1984, strict guidelines were issued, requiring contractors for state projects to use only local products if they were available and to use only local services, transport, insurance, food and banking. In response to contractors' demands, as expresses in the March 1985 Business Conference in Riyadh, the 30 percent rule (stipulating that foreign contractors subcontract at least 30 percent of their projects to local companies) was expanded to require all contracts to be split into small enough portions for local contractors...

...The most effective group was composed was composed on the new Nejdi business class and the state-created agricultural elite that had benefited most from the state's distributive policies during the boom. In serving the interests of this group, the state was willing to retract its long-standing adherence to Wahabbi Islamic doctrine and to compromise its own fiscal soundness, the preservation of scarce national resources, and the interests of other, much larger groups, such as consumer and the swelling ranks of the unemployed Saudi labor."

2.4.5. CONCLUSION.

The work reviewed above by Evans indicated that along with the nature of state intervention, the state-private sector relationship is central to the development programmes of economies. In the cases of developmental states and successful periods of intermediate states was a result of embedded autonomy of the state. As a result, there was continual interaction between the state and the private sector for goals and policy formulation as well as the implementation of projects. In addition the autonomy of the state is also crucial for the state to work towards long-term developmental goals and not be influenced for the benefit of individual segments of the society.

In the light of information in the following chapters, it will be possible to identify which scenario best describes the quality of state intervention within Saudi Arabia and the resulting relationship with the economic structure.

2.5. CONCLUSION.

This chapter has aimed to illustrate, in relation to the main agent of growth, how the pendulum has swung since the 1950s. From the 1950s to the end of the 1970s great emphasis was placed on the state as the main agent of growth through planning models. This was followed by a period where it seemed that the state could do no right and emphasis was placed on Private Sector Development. Many such as Killick (1989:8,32) felt that this was a 'Reaction too Far.'

Increasingly the feeling is not one of State versus Markets or the Private sector but one of partnership and co-operation. Private sector is not automatically more efficient than the state, often the private sector does not want too great a degree of liberalisation as it removes their comfortable position. It is important that the private sector enters the sectors it can operate efficiently. The same can be said about the state. The role the state adopts should also depend on the needs and the demands of the economy and society. The ability of the private sector depends on many factors such as how strong the state is, the efficiency of the bureaucracy, the level of autonomy and good co-operative links with the private sector.

It is important to identify the role of the state in Saudi Arabia to understand the developments within the economy and the private sector. The following chapters will identify which of the models are best suited illustrate to the depth and quality of state intervention in Saudi Arabia.

Chapter 3

The Saudi Arabian Economy.

3.1. INTRODUCTION.

In order to situate the position of the private sector in the economy this chapter aims to look at the general characteristics and the development of the Saudi Arabian economy, particularly focusing on development since 1973. Saudi Arabia accrued immense wealth due to the steep rise in oil prices in 1973-4, which was a turning point in its economic life. The oil revenue gave Saudi Arabia a financial surplus and an ability to create in a short space of time the physical infrastructure needed for development. In 1970, the government started to produce Five Year Development Plans; with these came the first attempts by the government to implement a comprehensive approach to economic and social development. As Lackner (1978:140) noted, the plans can be seen as an attempt to 'modernise' economic development and administration, as well as a way to make the best use of revenue, especially after the oil boom of 1973. The increased oil revenue from the early 1970s, coupled with the development plans, transformed the Saudi economy. However, Presley and Westaway (1989:1) have argued that far from solving developmental problems, this placed unusual pressures upon other areas such as manpower. It also strained the physical ability of the country to absorb increasing spending which led to inflation in the 1970s[1]. In the 1980s, the downturn in oil revenues created a recession in the economy.

[1] There are a number of papers that argue that primary sector booms can be a mixed blessing (Gelb, 1988; Stevens, 1986; Roemer, 1985; and Corden, 1984; and Parvin and Dezhbaksh, 1988). A boom can be seen as a blessing as it can relax the traditional constraints to economic development - foreign exchange, domestic savings and fiscal revenue. Thus a government can follow whatever route or policy desired for development, especially if the windfall is sustained. Primary sector booms can also be seen as a curse, as it can change the structure and the prices of the economy. Also, much of the critical analysis related to a primary sector boom has emphasised political and institutional factors - a boom greatly accentuates the size and importance of the government in decision making and therefore the negative aspects of the government are accentuated. Auty (1990) has argued that there are a number of reasons why Saudi Arabia has been more successful than other oil exporting countries, such as - type of regime, size of the windfall, Saudi investment abroad. These were all

These general trends in the economy have greatly influenced the health of the private sector. It saw good rates of growth during the boom as a result of increased government spending. The fall in oil prices, government spending and the subsequent recession affected the private sector negatively. As a result of the economic downturn, since 1985 the government has promoted the private sector as the main agent of development. It is impossible to understand the growth and the nature of the private sector without looking at the economy as a whole. This chapter aims to outline the main trends in the economy as a background to understanding the development of the private sector, which will be discussed in the next chapter.

3.2. THE SAUDI ARABIAN ECONOMY UNTIL END-1950s.

In 1932, when Saudi Arabia was created, the state of the economy was very basic. As noted by Knauerhase (1975:57) the wheel was not in general use in most areas of the nation. Before the development of the oil industry Saudi Arabians gained their livelihoods from pastoral agriculture and trade (Azzam, 1993:11; Knauerhase, 1975:57-9; Lipsky, 1959:204; Al-Bashir 1977:40). Inhabitants of the interior of the country were mostly pastoralists, raising goats, sheep and camels. The nomads drove their herds of animals across the deserts in search of forage, carrying their belongings on camel back from grazing area to grazing area. The majority of the urban population lived in small villages and survived through subsistence agriculture. There was virtually no industry in the towns. Commerce and pilgrimages were important for the economy, especially within the al-Hijaz region. Revenue gained by the annual pilgrimages were an important source of income for the holy cities of Mecca and Medina and the nearby port of Jeddah. Pilgrimage traffic was the primary source of income for the state before the development of the oil industry (Lipsky, 1959:154). For four months of the year, a large number of people were engaged in supplying various services to pilgrims and trade was the most important activity. The main areas of trade were furnishing, food and clothing

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layers that provided considerable latitude for smooth incremental adjustment to external shocks, especially the mid-1980s downswing.

needs of the population. Most of the domestic goods traded were imported, and the amount traded increased greatly after the Second World War. The traditional economy was generally based on a complex of small, self-sufficient units, the largest boundaries of which were those of oasis, village or tribe. Characteristics of the traditional economic environment were poverty, disease, illiteracy, obsolete techniques and isolation.

The turning point in the economy was due to the beginning of oil exports in 1948. This greatly increased revenues available to the government (Niblock, 1982:95). Oil was discovered in 1938. By the 1950s, the Saudi Arabian economy was dominated by the oil sector, which accounted for 85 percent of the government's revenue, 90 percent of foreign exchange and the major impetus to commercial and industrial activity (Lipsky, 1959:154). The Saudi economy and the government were almost entirely dependent on the oil industry and therefore vulnerable to world market conditions. Lipsky (1959:152-3,156) also noted that despite the development of the oil industry, the majority of people were still engaged in traditional types of employment and most of the country stood in sharp contrast to the oil industry. However, between 1932 and 1960 the revenue and fiscal system was not developed enough to take full advantage of the oil wealth. In addition, planning and government administration capabilities were poor and investment and planning were carried out in a random fashion. As noted by Niblock (1982:95-6):

> "By 1953 annual revenue had surpassed US$100 million and by 1960 it stood at US$333.7 million. Not surprisingly, in a structure which was – as explained earlier – not geared to a coherent use of resources for developmental purposes, the vast new resources were not channelled into coherent development plans. The political processes were neither able to (due to skeletal government organisations) nor the inherently suited (due to the nature of the groups wielding power)[2] to pursue a consistent development programme. Decisions on disbursements were taken at random and uncoordinated fashion, with no clear objectives laid down."

Until 1952 there was no central authority to regulate the variations and fluctuations in local currency, foreign exchange or to assist the government in the technical adjustment of the monetary system in the changing economy. Banks played a very small part in the economy. Also, there was no single institution which functioned as a central bank until 1952. Most private commercial banks were foreign owned and their activities were limited to the short-term financing of the import trade and of enterprises catering for pilgrims. Under King Saud, in 1954 there was an aim to develop infrastructure and welfare of the Kingdom. Roads, schools and hospitals were constructed, all financed through oil money. This was the first formally organised budget. However, it was short lived due to the magnitude of the projects undertaken and growing corruption outweighed oil revenues[3].

Along with these trends towards economic modernisation, the traditional economy was being affected by long-run changes. There was a decreased demand for camels, horses, donkeys and dates; the agricultural sector was badly affected; declining activity in the pearling and other maritime activities; and a virtual collapse in the local craft market. This resulting effect was a serious hardship in the countryside that placed greater reliance on the major urban centres and on the oil industry. Increasingly, there was growing social tension and discontent, the increased oil revenue resulted in the relative prosperity within different sections of the population as a result of nature of influence. As Niblock (1982:77) mentioned:

> "The declining prosperity (or increased poverty) of some was in sharp contrast with the substantial profits accumulated by merchants (based on the import trade) and with the spending on luxury consumption by some of those holding, or enjoying access to, political power."

In the 1950s Saudi Arabia had an almost total lack of modern infrastructure. Thus, the government's first programmes were devoted to updating and expanding the infrastructure, with little emphasis on new industrial investment. The first steps towards planning took place in 1958, when Anwar Ali, the head of the IMF mission, prepared the plan for the restoration of fiscal soundness and suggested the

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[2] Niblock (1982:77) noted earlier that significant roles were given with in the state to the commercial elite. The royal family also maintained strong links with the ulama and the bedouin tribal leaders in order to maintain security and stability.

[3] Niblock (1982:96) mentioned that a large part of the revenue from oil was spent on luxury projects – such as two palaces constructed by King Saud at a cost of US$50 (Shakir, 1972:129 cited in Niblock 1982:96) and on increased subsidies to tribal leaders.

establishment of an economic development committee. Formal planning began in 1959, when the Prime Minister expanded the economic development committee and established the Committee for Economic Development. But as noted by Knauerhase (1975:320), by the end of the 1960s it had become apparent that the existing planning structure was inadequate in achieving its goals.

3.3. THE ECONOMIC DEVELOPMENT FROM 1960 - 1973.

3.3.1. OVERALL ECONOMIC DEVELOPMENT AND *THE EMERGENCE* OF PLANNING.

The Ten-Point Programme of 1962 soon followed the reinstatement of Faisal as the Prime Minister. This was a turning point in the planning and modernisation process[4]. Knauerhase (1975:64) noted that the beginning of Saudi Arabia's efforts to industrialise dated from 1962[5]. Niblock (1982:100) highlighted the central themes of the plan:

> "Perhaps the most crucial elements in this were those which proclaimed 'the government's solicitude for social matters and education' and pledged a 'sustained endeavour to develop the country's resources and economy, in particular roads, water resources, heavy and light industry, and self-sufficient agriculture' The ground was laid, therefore, for the massive programmes of infrastructural, industrial and agricultural development which followed in the 1960s and 1970s – as also for the government administration required by this scale of economic development."

[4] Niblock (1982:77-8) highlighted the two approaches within the ruling family to respond to the growing social discontent. Firstly, there were those who wanted to move towards a liberal parliamentary system – a direction associated with Prince Talal b. Adb al-Aziz. The other associated with Crown Prince Faisal who wanted to deal with the discontent through programmes for industrial and agricultural development and social welfare programmes. The Ten Point Programme was a victory for the second group.

[5] Knauerhase (1974:126-7) noted that this period saw the rapid expansion of new roads and rail networks, construction of desalinisation plants for drinking and industrial use, and establishing the foundations for a modern communications system.

An important factor in the economy of Saudi Arabia was foreign oil companies. In 1933, the concession to exploit Saudi oil was granted to California Arabian Standard Oil Company (predecessor of ARAMCO). The government felt that little progress could be made in utilising the oil sector as an instrument through which it could diversify the economy. As an alternative the government set up its own national oil company in 1962 to attain these goals, the General Petroleum and Minerals Organisation (Petromin).

The aim of Petromin was to develop the industries based on petroleum, natural gas and minerals. Petromin built two refineries - the Jeddah Oil Refinery and the Saudi Arabian Oil Company (SARCO), which started production the August 1968. Another company operating in the oil related industry was Petromin Lubricating Oil Company (Petrolube), founded in 1967 with 71 percent ownership by Petromin and 29 percent by Mobil and other private interests. It produced basic lubricants in a Jeddah factory opened in 1971. In an attempt to set up some petrochemical industries, Petromin formed the Saudi Arabian Fertiliser Company.

Looney (1982:169) cited some surveys carried out at the end of the 1960s and the early 1970s, which concluded that the Saudi Manufacturing sector was dominated by small firms. Nearly, 95 percent employed fewer than five persons and were generally handicraft shops and accounted for half on the employment in the entire manufacturing sector.

The 1960s saw good levels of growth, subtracting net factor payments abroad (mostly to foreign oil companies), GNP rose from S.R. 6.5 billion in 1962/3 to S.R. 19.2 billion in 1971/2, an increase of almost 200 percent (Knauerhase, 1975:65). Kanovsky (1996:7) noted that between 1960 and 1970 Saudi oil revenues tripled in real terms. This was mainly due to higher output, which was facilitated by an improvement in the profit sharing agreement with Arabian American Oil Company (ARAMCO)[6]. The sector with the fastest growth rate was crude oil and natural gas exploitation, followed by transport, storage, communication, electricity, gas, water and other infrastructural sectors. The development of the infrastructure was

[6] A consortium of four American oil companies that had a concession on almost all Saudi oil production.

important for future growth of the economy. The smallest growth rate was experienced by the agricultural sector. In terms of relative shares contributing to the economy, the petroleum sector increased its share from 47.1 percent in 1962/3 to 67.5 percent in 1972/3. Agriculture's share fell to 2.8 percent from 10.1 percent. The relative share of the transport, storage and communication sector also rose, indicating the relatively rapid growth of the physical infrastructure (Knauerhase 1975:76,84).

Despite the increases in the oil revenue, Saudi Arabia was suffering from both a budget deficit and a deficit in the current account by the end of the 1960s. As Kanovsky (1996:7) mentioned "in short, government spending (and imports) has initially lagged behind rising revenue but soon caught up with and then surpassed it."

As can be seen from above, industry until 1970s was only at an embryonic stage and there were only limited offshoots of the oil industry, which indicated the absence of a serious attempt to diversify away from crude oil production and build an industrial base. Oil revenue was able to pay for imports and before the development plans little thought was given to investment in the productive sectors. Nor was there much effort to develop human resources to reduce the dependence on migrant and contact labour. The main obstacles to industrialisation included the absence of financial facilities necessary for the establishment of industrial projects, lack of raw materials and skilled labour force, the necessary physical infrastructure and the preference of the nationals to invest in property rather than industrial projects.

3.3.2. THE FIRST DEVELOPMENT PLAN (1970-1975).

From 1970 the Kingdom started implementing Five Year Development Plans. The Development Plans tried to consider every aspect of social and economic development, including the private and public sectors. The Plans identified the infrastructural, agricultural, industrial and commercial needs and formulated strategies (all compatible with each other) to reach defined goals. The main emphases of the Development Plans have changed as the economic structure and climate has been transformed. However, there are certain aims that are similar in the

Plans such as, good growth rates for the economy, emphasis on the development of human resources and diversification of the economy from the dependence from a single export commodity. Business International (1981:28) noted the importance of the development plans as it provided continuity to the government's commitment to economic development planning.

The First Development Plan was drawn up when Saudi Arabia's financial situation was weak and the Kingdom had a balance of payments problem for two consecutive years (Business International, 1981:28). The emphasis of the plan was to provide essential basic infrastructure (which was required for creating a base for the productive sectors), improving Government services and the expansion of supporting institutions. When reviewing the aims of the previous development plans, The Sixth Development Plan (Ministry of Planning, 1995:44) outlined the main aims the first plan as:

> "The government placed special emphasis on the expansion of water supply and electricity generation. In the transport sector, road construction, airports and sea port development projects were implemented. The oil sector was expanded and a new refinery was constructed in Riyadh. Many new schools and hospitals were built."

Table 3.1, indicated the distribution of the financial allocation of the plan, which the Sixth Development Plan (Ministry of Planning, 1995:44) noted was modest in scale from today's perspective, and funded by higher oil prices from US$1.80 per barrel to around US$10.70 over the course of the plan. The distribution of financial allocation for the plan suggests a modification of the conclusions stated above. In terms of project expenditure defence stood in first place with 23.1.percent of allocation (see Table 3.1), followed by administration, transport and communication and public utilities and urban development. Reasons for this priority structure were (Knauerhase, 1975:323):

> 'About the time the plan was in its formative phase the Kingdom felt its security threatened on four sides, by Yemen, Syria, Iraq, and Iran. The plan was completed several years before the settlement of the disputes between Iran and Saudi Arabia and in the Arabian Gulf Area, and before the Arab Summit Meeting of late 1974. The position of administration in

second place follows from the fact that for some time to come the real force in advancing development of the nation will have to come from the government. The private sector is still too small to contribute significantly to economic development. Thus, increases in the of the administration promise gains in the economic development.'

Table 3.1: Distribution of Financial Allocation for the First Development Plan (S.R. million)

SECTOR	Recurrent	Project	Total Amount	Total %
Administration	6,794.60	922.8	7,717.4	18.6
Defence	3,980	5,575	9,555	23.1
Education, vocational training and cultural affairs	6,150.20	1,227.50	7,377.7	17.8
Health and social affairs	1,612.90	308.2	1,921.1	4.7
Public utilities and urban development	1,246.90	3,325.40	4,572.3	11.1
Transport and communication	1,767.30	5,709.20	7,476.5	18.1
Industry	321.8	776.7	1098.5	2.7
Agriculture	973.8	493.9	1467.7	3.6
Trade and services	83.5	43.8	127.3	0.3
TOTAL	22,931.00	18,382.50	41,313.5	100

Source: CPO, Development Plan, 1390 A.H. (Riyadh, n.d.), p43.

The Wall Street Journal (6th October 1975, cited in Al-Farsy (1990:151)) and Lackner (1978:146) described the achievements of the First Development Plan as 'mixed' as not every program was fully implemented. As well as citing the achievements of the Plan, the Wall Street Journal noted that housing did not keep pace with urban growth and the development of the national telecommunications system did not meet demand. The plan aimed to increase the GDP by 10 percent a year and this was fulfilled easily. This does not necessarily give a real indication of the development of the economy. The increase in GDP was mostly due to the multiplication of the oil revenue after 1973, rather than increased output of industry or agriculture. The Wall Street Journal and Lackner both suggest that perhaps the most significant outcome of the First Five Year Plan was the planning experience gained by the Central Planning Organisation. The First Development Plan was a great improvement on the previous chaotic situation.

Thus in the period between the formation of the boundaries of Saudi Arabia in 1932 and 1970s, there were changes in the economy. There was a shift away from the traditional methods of production and a move towards a larger role of the oil industry. Crude oil and natural gas accounted for 55 percent of the GDP in 1969-70 (Masood, 1989:1). The increase in revenue and the beginning of the planning process allowed the government to develop the infrastructure, but lack of finance was still a hindrance to the further development and diversification of the economy. As Masood (1989:1) noted, prior to 1973 Saudi Arabia did not have the sufficient investment capital or the needed infrastructural facilities to set up the basic industries in the country. But due to the significant increases in export earnings, owing to the steep rise in the oil prices in 1973-4, this was a turning point not only in the socio-economic and political life of Saudi Arabia but also in the industrial field.

3.4. AN OVERVIEW OF THE DEVELOPMENTS IN THE SAUDI ARABIAN ECONOMY AFTER 1973.

As noted earlier, the increase in the oil price transformed the Saudi Arabian economy and the bottlenecks for development could be removed. The development plans meant that there was a strategy for the development and the utilisation of oil revenues. The economy has been greatly influenced by the Plans. As noted by Presley (1986:28) and Nagi (1982, cited in Looney, 1991:18) the role of the government in Saudi Arabia has been accentuated as the government is the owner of the major source of income, and plays a predominant role in both consumption and investment. Also, the government's role was heightened due to a number of structural characteristics that would preclude an automatic equilibration of most markets:

- Financial markets were underdeveloped, with interest rates playing an insignificant role due to Islamic codes concerning usury;
- The relative low population base put some limits on the size of the market and competition; and

- A sectoral imbalance that was dominated by oil accounting for real output and by services in respect to employment. This situation created an environment where there was a gap between income creation and demand generation that had to be closed by government expenditure. The implications of this situation in terms of markets were:
  - a price mechanism that was way above the real value, especially in real estate, land and non-industrial properties, and
  - a wage mechanism that was tied to inflation and oil revenues and was only remotely connected with real productivity.

Thus, the aims and the expenditure patterns of the Development Plans have shaped the characteristics of the economy. Nagi (1982, cited in Looney, 1991:18) also noted that government expenditure accounted for well over half of aggregate demand.

Since 1973 the Saudi economy can be divided into three stages as a result of the changes in oil prices and the subsequent effects on the economy. The three stages include (Rehfuss, 1996:50):

1. 1973-1981. A period of high growth rates due the oil price boom. It was a period of infrastructure building, development of the welfare state and the distribution of the oil bonanza for income distribution (including subsidies).
2. 1982-1989. Slowdown and recession of the economy as world oil prices dropped. This was followed by a period of slight recovery as the oil prices improved.
3. 1990-Present. A period of mixed growth rates and the Gulf war. The government has tried to increase the role of the private sector to take the lead in economic development. Government expenditure is still the most important agent in the economy.

The remainder of the chapter looks at the development of the economy from 1973 onwards, and is divided in to the three time periods mentioned above. Each section looks at the development plans formulated in the time period concerned, even though the plans might fall into later periods. The reason for this is that the development plans reflect the framework of government thinking within the time period during which it was issued. Having dealt with each development plan, the sections will look at the overall development of the economy during the time period.

3.5. THE BOOM YEARS: 1973 – 1981.

3.5.1. THE SECOND AND THIRD FIVE YEAR DEVELOPMENT PLANS.

The Second Development Plan (1975-1980), like the First, continued to emphasise the development of infrastructure and construction (roads, transportation, ports, electricity, water, housing) as the lack of these were seen as barriers to economic growth. In addition, to achieve the objectives of economic development and diversification, the government established major new institutions. The Sixth Development Plan (Ministry of Planning, 1995:45) gave some examples – the specialised credit funds, the Saudi Ports Authority, SABIC, the Ministry of Industry and Electricity, and the Royal Commission for Jubail and Yanbu, whose mission was to develop two new industrial cities. The strategy of the Second Development Plan concentrated on four main areas of development (Ministry of Planning, 1980:13):

1. Physical Infrastructure. Great emphasis was placed on the elimination of the constraints which had already been experienced during the First Plan with the result that throughout the Second Plan there was exceptionally heavy investment in physical infrastructure;
2. Hydrocarbon Resources. Initial steps were taken to introduce medium and long-term programs designed to maximise the conservation of these resources, and promote energy-intensive industries with their higher value exports;
3. Administration. There was a substantial expansion of the network of government institutions, and therefore of related employment;
4. The Private Sector. This was stimulated through four main policies:
   - Acceptance of the necessity of using foreign labour in the Kingdom, to assist in the implementation of the development programmes during the five year period;

- Encouragement of initial migration of surplus manpower from rural areas to urban areas with industrial employment opportunities;

- A major role for private enterprise in the development of the productive sector, with all possible government assistance and financial stimulation;

-Prudent utilisation of international co-operation agreements, whereby the Kingdom could acquire access to technical and managerial expertise, in skilled labour.

Due to the increased wealth of the Kingdom there was a tremendous increase in budget allocation in the Second Development Plan compared to the First. The financial allocation of the Second Development Plan amounted to SR 498,270 million (Ministry of Planning, 1975:25)[7]. Government expenditure reached SR 658 billion in the Second Plan - an increase of more than eight-fold over the First Plan. The importance of infrastructure can be seen from Table 3.2. Physical infrastructure development accounted for the largest percentage share of government expenditure on development – 49.6 percent. The second most important sector was Economic Resource Development with 25.1 percent. There was a shift in the weighting of the Second Development Plan compared to the First; in the planned expenditure of the Second Plan, there was reduced importance on Defence (only 15.6. percent of planned expenditure) and Administration (7.7 percent) (Ministry of Planning, 1975:25)[8].

[7] Kanovsky (1996:10-11) stated that not only did the government spend the allotted amount but overspent by US$45 billion. Overspending was due to a number of reasons. The cumbersome and inefficient bureaucracy effectively stretched out the allotted spending for implementation, thus raising the cost. A lack of skilled Saudis necessitated the large-scale importation of foreign labour and management. The government sharply increased subsidies of all kinds for both producers and consumers. A massive growth of the bureaucracy greatly expanded current expenditure on salaries and 'perks' (what outsiders might call corruption). And military expenditure went far beyond those stipulated in the plan.

[8] Al-Farsy (1990:155) also indicated that the Second Development Plan's emphasis differed from the first as: "The major categories of the country's First Five Year Plan was in the fields of administration, defense, education, vocational training and cultural affairs, health and social affairs, public utilities and urban development, transport and communication, industry, agriculture, and, finally, trade and services. But the Second Five Year Plan's main aims were: economic resource development, human resource development, social development, physical infrastructure development, administration, defence, external assistance, emergency funds, and finally, food subsidies."

Table 3.2: Total Government Expenditure on Development.

Function of Expenditure	Percent
Economic Resource Development	25.1
Human Resource Development	15.9
Social Development	9.4
Physical and Infrastructure Development	49.6
Sub-Total Development	**100**
Administration*	6.7
Emergency Resources and Subsidies	15.9
Total Civilian Expenditure	**122.6**

* This includes:
(i) Ministries and Agencies with primary administrative function;
(ii) Judicial & Religious Agencies.

Source: Ministry of Planning (1981:25), Summary of Saudi Arabian Third FiveYear Development Plan. TIHAMA.

Overall the economy registered impressive growth rates. The average growth rate of the Plan for the GDP was 8.04 percent, the non-oil sector grew at an average annual rate of 15.13 percent (Ministry of Planning, 1980:13). Like the period of the First Development Plan, this was a time of high oil prices and increased revenue, thus much of the growth could be due to the multiplication of the oil revenue, rather than increased production. Business International (1981:28) highlighted some of the achievements of the plan:

> "A major achievement during this period was a great increase in the professional self-confidence, which in turn led to greater effectiveness of the entire Saudi government organisation, especially in planning, petroleum, financial and industrial fields. The Saudi private sector was mobilised, and hence profited greatly, during the implementation of the plan."

As a result of the first two development plans and the revenue earned through oil exports, Saudi Arabia had built up the infrastructure in a decade (that other countries have taken much longer to develop) necessary to provide the foundations on which industry could be established. As already mentioned, tremendous progress made in fields of physical and social infrastructure. These activities had a major impact on the high growth rate of the construction sector. In addition, the heavy reliance on imports and foreign labour was required for commercial growth. During this period the private sector mainly concentrated on the construction and trade sectors (Ministry of Planning, 1995: 44).

The Third Development Plan (1980-1985) was announced in the spring of 1980 which was a time of prosperity for Saudi Arabia as both the volume of exports and the price of the oil were rapidly rising. Although the Third Development Plan still aimed to continue with similar policies of the previous Plan, such as diversifying the economy and continuing educational, health and social development, there was also a change in the emphasis of the Plan. Looney (199b:6, 1989:79), Masood (1989:12) and Presley (1984:13) all felt that there was a marked change in direction to the first two development plans[9]. This departure in the aims were:

- Emphasis was placed on the growth of the producing sectors (particularly hydrocarbons and industry) and less weight was placed on physical infrastructure. Increased emphasis on the producing sectors to increase the potential for future development was one of the three main aims of the Development Plan (Ministry of Planning, 1980:16). The Plan also noted that although it still aimed to continue the development of the physical infrastructure but at a reduced rate in relation to other sectors of the economy, to permit maximum investment in agriculture, industry and mining. Despite this, infrastructure continued to have the largest share of the budget allocation (Table 3.3[10]). Whilst the first two plans targeted growth in all sectors, the third plan was more selective, opting for growth in areas that the planners felt demonstrated their potential (Looney, 1990:123);
- There was a move away from depending on foreign labour in the industrialisation programmes;
- Diversification of the economy (which was one of the primary objectives of the Plan) should be undertaken largely by the private sector. The role of the government was to set priorities for investment; to provide information and research on which the private sector can base investment decisions; and to provide the necessary infrastructure support for the development b the private sector of productive enterprises. As the Sixth Development Plan (Ministry of Planning, 1995:45) noted: "The volatility of oil revenues re-affirmed the need of

[9] Al-Farsy (1990:157) and Kanovsky (1996:18) both disagree with this and feel that the goals of the Third Development Plan were a continuation of the first two.
[10] The Sixth Development Plan outlined the Expenditure of the Development Agencies in the first four Plans (Ministry of Planning, 1995:46). It noted that in the Third Plan the category with the

the private sector to expand and for the economy to become less dependant on government activity and the oil sector."; and

- Increasing the absorptive capacity of the economy. Increased economic and administrative efficiency was also one of the main aims of the Plan (Ministry of Planning, 1980:16). Emphasis was placed on increasing economic efficiency and on raising the efficient utilisation of the labour force. As cited by the Plan (Ministry of Planning, 1980:268): "greater attention will be given to raising productivity levels, improving management expertise and increasing the degree of specialisation."

Table 3.3: Allocation of Government's Development Expenditures in the Third Plan

	Distribution			Actual Expenditure	
	Plan	Budget	Actual	Value	% of Plan
	(Percent)			(SR bn)	%
A. Development Sectors					
Economic and Social					
Economic Resources	27.6	17.7	18.3	120.4	63
Human Resources	18.8	18.8	18.8	124.3	95
Health/Social Development	8.8	10.1	10.5	69.6	113
Infrastructure					
Municipalities	12.9	19.3	16.5	108.9	121
Transport/Communication	19.9	20.1	21.1	139.1	100
B. Specialised Credit Institutions	12	14	14.8	97.3	120
TOTAL PERCENT	100	100	100		
TOTAL EXPENDITURE (SR bn)	692.5	738.9	659.6	659.6	95

Source: Fourth Development Plan (Ministry of Planning, 1985:26).

The non-oil economy's growth rate was 5.1 percent whilst the Plan had set a target of 6.2 percent. The Fourth Development Plan (1985:12) put this down to the reduction in demand for crude oil, latent domestic inflation and possible supply bottlenecks. Despite this the sectoral growth rates in the non-oil economy started reflecting the desired structural change, as there was strong growth in manufacturing (14.1 percent), agriculture (8.7 percent) and utilities (24 percent) (Ministry of

highest percent of spending was Infrastructure (41.1 percent) followed by Economic Resources (30.7 percent).

Planning, 1985:14). There was a contraction in the construction sector (-1.4 percent) and there was a shift towards the private sector.

The Third Development Plan can be seen as a failure with respect to foreign employment. The Plan aimed at a growth of foreign labour force by only 0.2 percent, but in fact the foreign labour force grew by 11.7 percent (Ministry of Planning, 1985:12). Looney (1990b:33) cited the World Bank Development Report (1986) which stated that during the period of the Third Development Plan the Saudi labour force grew at an average annual rate of 3.7 percent, compared with non-Saudi growth of 11.8 percent. The net result was that the share of Saudis in the total labour force declined from 49.4 percent in 1980 to 40.2 percent in 1985. High levels of growth within the private sector were the main reason for the rapid increase in employment (Ministry of Planning, 1985:36). The Fourth Development Plan (Ministry of Planning, 1985:12) noted that private investment rose both relative to public sector investment (excluding the oil sector) and to total investment by all sectors (see Table 3.4). In addition, the Sixth Development Plan (Ministry of Planning, 1995:45) mentioned that manufacturing became more prominent and agriculture emerged as a high growth sector in response to government incentives and funding. The World Bank Report (cited in Looney, (1990b:33)) also noted that productivity did not reach the desired level, which was probably the greatest disappointment of the Plan. The Fourth Development Plan (1985:36) noted that over the period of the Third Plan, productivity declined at an average annual rate of 2.7 percent, whilst employment rose by 46.9 percent. Therefore on the whole the aims of the Third Plan were not fulfilled.

Table 3.4: Government Expenditure, GDP and Investment (At Current prices)

	Government Expenditure	Gross Domestic Product *		Government Expenditure as a Percent of Non-oil GDP	Percentage ratios Relating to investment **		
		All Sectors	Non-oil Sector		Private/ Public	Private/ Total	Total/ Non-oil GDP
	(SR billion)						
Second Plan	684	1,222	453	151	44.3	27.1	71.8
Third Plan	1,209	2,190	980	123.4	57	31.8	7.2

* Excludes import duties
** Public investment excludes the oil sector; total investment includes it
Source: Fourth Development Plan (Ministry of Planning, 1985:13)

3.5.2. PERFORMANCE OF THE SAUDI ECONOMY DURING THE BOOM YEARS.

3.5.2.1. General.

The increase in the oil price occurred due to oil embargo by Saudi Arabia and other Arab oil exporters to the Netherlands and the United States, after the outbreak of the Arab-Israeli war. Kanovsky (1996:9) pointed out that the main reason for the price increases was not a reduction in production as world oil consumption rose by 8.1 percent in 1973 and world oil production rose even more rapidly by 9.3 percent. He concluded that the main reason for the oil price rise was an anticipation of future shortages, which led to stockpiling and therefore an increase of Saudi light oil price almost doubling in October 1973 to over US$5 a barrel and again more than doubling to US$11 a barrel. The World Bank estimated an average official OPEC selling price of US$5.8 per barrel in 1973 and US$19.8 in 1974 (Table 3.5). This price increase coupled with increased production (except for 1975 and 1978) and steady export of oil (Table 3.5), meant a great increase in the revenue for the government, which totally transformed the Saudi Economy. There was another large increase in oil prices at the end of the decade, due to the fall of the Shah of Iran. In 1981 the average OPEC official selling price was US$34.3 (Table 3.5).

Table 3.5: Crude Oil Prices, Production and Exports from Saudi Arabia.

	Oil Prices [a] US$/barrel	Total Production (m. tonnes)[b]	% change in Production	Export of Crude Oil (m. Barrels)
1970	3.7	190.80	18.13	1,174.17
1971	4.6	239.50	25.52	1,528.19
1972	4.7	302.97	26.50	1,992.53
1973	5.8	381.48	25.91	2,560.34
1974	19.8	425.85	11.63	2,891.68
1975	17.4	355.33	-16.56	2,409.39
1976	18.4	431.93	21.56	2,939.64
1977	18.3	462.02	6.97	3,142.05
1978	16.0	416.88	-9.77	2,812.70
1979	20.4	478.69	14.83	3,218.47
1980	30.5	498.59	4.16	3,375.69
1981	34.3	492.55	-1.21	3,291.54
1982	33.6	325.59	-33.90	2,058.40
1983	30.1	227.97	-29.98	1,431.08
1984	30.1	205.41	-9.90	1,167.89
1985	29.2	159.44	-22.38	780.72
1986	24.0	240.26	50.69	1,190.02
1987	14.2	207.12	-13.79	973.12
1988	13.1	260.06	25.56	1,245.49
1989	13.3	254.33	-2.20	1,217.50
1990	13.3	322.02	26.62	1,217.50

a. Average OPEC official selling price (1980 constant US$)
b. Includes Saudi ARAMCO, Getty, A.O.C. (except for the years in bold which Include other companies). The name of Getty Oil Company was replaced by Saudi Arabian Texaco, starting 1.1.1993.
Sources:
Oil prices: World Bank Commodity Trade and Price Trends (1989 & 1991)
All other columns SAMA 1995:215 - 6.

3.5.2.2. The Budget – Government Revenue and Expenditure.

The oil booms had a profound effect on the revenue of the Government, as can be seen from Table 3.6 and 3.7. The Saudi government captured the bulk of the oil windfall. Auty (1990:98-101) estimated the oil shock combined with expanded oil production yielded a windfall equivalent to just over twice its non-oil GDP during the first oil boom and around 180 percent of a greatly expanded non-oil GDP during the second boom. There was an increase in revenue by 170.7 percent in 1974 and

140 percent in 1975 (calculated from Table 3.6). In 1974 actual revenue was double of expected revenue. The bulk of government revenue accrues from oil revenues. In 1974 oil revenue accounted for 94.3 percent of total revenue, and an average for the period between 1974 and 1980 was 89.8 percent (calculated from Table 3.6).

Table 3.6: Budgeted and Actual Revenues and Expenditures

(Billions of Saudi Riyals)

Year	Budgeted Values			Actual Values		
	Revenue	Expenditure	Surplus	Revenue	Expenditure	Surplus
1970	6	6	0	5.7	6.1	-0.4
1971	6.4	6.4	0	8	6.3	1.7
1972	10.9	10.8	0	11.1	8.1	3
1973	13.2	13.2	0	15.4	10.2	5.2
1974	22.8	22.8	0	41.7	18.6	23.1
1975	98.2	45.7	52.5	100.1	35	65.1
1976	110.9	110.9	0	103.4	81.8	21.6
1977	95.8	110.9	-15.1	136	128.3	7.7
1978	146.5	110.4	36.1	130.7	138.1	-7.4
1979	130	148.7	-18.7	131.5	148	-16.5
1980	160	160	0	211.2	188.4	22.8
1981	261.5	240	17	348.1	236.6	115.5
1982	340	298	42	360	284.7	83.3
1983	313	313.4	0	246.3	243.8	2.5
1984	225	260	-35	187.3	222.3	-35
1985	214.1	260	-45.9	166.9	212.9	-46
1986	200	200	0	-	-	-

Note: Figures might not sum to totals due to rounding
Source: Johany (1986:68).

As noted by Linderoth (1992:1079) and Kanovsky (1996:19) after the increase in revenue there was a time delay before expenditure also expanded. During this time there was a build up of the budget surplus and also in the current account of the Balance of Payments (Table 3.10)[11]. Before the second price rise, expenditure outweighed revenues and a deficit was recorded in the budget. Linderoth pointed out that expected revenue was estimated to be higher than actual revenue. Johany et al. (1986:69) also noted that the economy was showing signs of overheating (including inflation), and the government attempted to reduce expenditure but due to inertia of its spending commitments expenditure only grew at a slower rate.

[11] Kanovsky (1996:9) and Johany et al. (1986:66-67) also noted this.

Table 3.7: The Saudi Budget (in billions of dollars)

	1974	1975	1976	1977	1978	1979	1980	1981
Total Revenues	28.4	29.3	38.5	37.9	39.3	63	104.9	108.2
Oil revenues	26.8	26.5	34.3	32.7	34.4	56.5	96.2	96.6
Investment Income	1.2	2.2	3.2	3.3	3	4.4	6.4	8.9
Special Transfers	-	-	-	-	-	-	-	-
Other Revenues	0.5	0.6	0.9	1.9	1.9	2.1	2.2	2.7
Total Expenditures	10	23.2	30.2	39.3	43.7	56.2	71.3	83.7
Projects	5.6	12.3	15.5	19.1	19.2	31.2	37.1	42.8
Operations and Maintenance	-	-	-	-	-	-	-	-
Military	2.5	6.7	9	9.1	10.6	16.9	16.5	19.3
Foreign Aid	0.8	1.2	2.4	3.2	1.9	2.9	7.4	7.1
Emergency	-	-	-	-	-	-	-	-
Others	1	3	3.3	8	11.9	5.3	10.3	14.5
Budgetary Balance	18.5	6.1	8.3	-1.4	-4.4	6.8	33.6	24.5

Source: SAMA (*Annual Reports; MEED*), EIU (*Country Reports and Profiles*), *Middle East Economic Survey.* (Cited in Kanovsky 1996:appendix II)

As seen from the first two development plans and Table 3.7 the main directions of expenditure were infrastructure projects and defence. The deficit was short-lived due to the second oil boom, as can be seen from Tables 3.6 and 3.7 there was a huge increase in actual revenue (far greater than anticipated) and budget surplus.

3.5.2.3. The Structure and Growth of the Economy.

The increase in the oil price and the subsequent increase in the government revenue had a profound impact on the structure and growth of the economy. As generally accepted and noted by El Mallakh (1982:34) the high growth rates that occurred during the boom period were results of the increased oil revenue and expenditure. During the boom years the GDP saw high growth rates, an average of over 10 percent between 1973-1981 (calculated from Table 3.9). The oil boom and the direction of the government expenditure also greatly affected the make-up of the structure of the economy. As can be seen from Table 3.8, the largest sector of the economy was the Crude Petroleum and Natural Gas sector. It reached a peak share of 58.11 percent in 1973, but it's declined for the rest of the period to 37.55 percent by 1981. Never the less it still remained the most important sector contributing to GDP by far.

The other sectors that increased their share of contributions to the GDP include Construction, Wholesale and Retail Trade, Restaurants & Hotels, and Ownership of Dwellings[12]. Construction increased its share from 5.56 percent in 1973 to 11.55 percent in 1981 (calculated from Table 3.8). As mentioned before, this was a time of infrastructure building as set out in the Development Plans, which can explain the impressive growth of the sector. Auty (1988:217) contributed the high growth rates of the construction sector to government spending. Auty estimated that overall expenditure on construction more than quadrupled between 1976-9, to approximately US$3 billion worth of new projects being assigned each month. This level of spending continued until 1981. At its peak the construction sector accounted for 30 percent of non-oil GDP. Presley and Westaway (1989:77) also noted the increase in spending on construction and that most of it originated from

[12] A similar trend was also noted by Johany et al. (1986:18).

Table 3.8: Gross Domestic Product by Type of Economic Activity
At producers values and at constant Prices (1970 = 100)
(Million Riyals)

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
A. Industries and Other Producers Except Producers of Gov. Services													
1. Agriculture, Forestry & Fishing	984	1,018	1,050	1,089	1,130	1,174	1,221	1,282	1,483	1,550	1,640	1,735	1,839
2. Mining and Quarrying:													
a) Crude petroleum & Natural Gas	8,106	9,922	12,427	15,556	18,158	17,339	17,510	19,852	19,650	20,112	21,652	22,487	20,233
b) Other	48	49	55	77	96	81	112	134	147	125	128	153	211
3. Manufacturing:													
a) Petroleum Refining	1,241	1,355	1,304	1,378	1,417	1,300	1,359	1,523	1,591	1,689	1,749	1,745	1,716
b) Other	431	484	543	599	665	721	828	956	1,103	1,276	1,477	1,711	1,983
4. Electricity, Gas and Water	273	298	329	381	417	322	345	414	546	725	868	1,109	1,396
5. Construction	934	957	1,053	1,396	1,737	2,461	3,309	4,146	4,582	4,700	5,128	5,654	6,225
6. Wholesale & Retail Trade Restaurants and Hotels	1,008	1,051	1,146	1,375	1,623	1,920	2,331	2,881	3,555	4,272	5,349	6,334	7,289
7. Transport, Storage & Communications	1,243	1,468	1,544	1,849	2,224	1,289	1,580	1,929	2,367	2,729	3,118	3,383	3,659
8. Finance, Insurance, Real Estate & Business Services:													
a) Ownership of Dwellings	661	693	732	787	864	1,650	1,933	2,276	2,549	2,804	3,084	3,270	3,433
b) Other	355	360	378	420	474	585	675	799	913	1,072	1,222	1,421	1,635
9. Community, Social and Personal Services	238	253	272	287	310	319	363	413	470	534	556	607	663
10. Less: Imputed Bank Service Charge	-46	-48	-46	-42	-46	-59	-70	-99	-144	-197	-250	-313	-329
B. Producers of Govt. Services	1,678	1,722	1,834	1,981	2,177	2,438	2,755	2,813	2,953	3,130	3,334	3,677	3,935
Total Except Imported Duties	17,154	19,582	22,621	27,133	31,246	31,540	34,251	39,319	41,765	44,521	49,055	52,973	53,888
Import Duties	246	325	342	362	396	184	211	350	263	317	316	309	275
Gross Domestic Product	17,400	19,907	22,963	27,495	31,642	31,724	34,462	39,669	42,028	44,838	49,371	53,282	54,163

Source: SAMA 1995, p179-182.

Table 3.9: Percentage Growth Rates of GDP and Economic Sectors

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
A. Industries and Other Producers Except Producers of Gov. Services													
1. Agriculture, Forestry & Fishing	3.46%	3.14%	3.71%	3.76%	3.89%	4.00%	5.00%	15.68%	4.52%	5.81%	5.79%	5.99%	10.00%
2. Mining and Quarrying:													
a) Crude petroleum & Natural Gas	22.40%	25.25%	25.18%	16.73%	-4.51%	0.99%	13.38%	-1.02%	2.35%	7.66%	3.86%	-10.02%	-40.00%
b) Other	2.08%	12.24%	40.00%	24.68%	-15.63%	38.27%	19.64%	9.70%	-14.97%	2.40%	19.53%	37.91%	-94.70%
3. Manufacturing:													
a) Petroleum Refining	9.19%	-3.76%	5.67%	2.83%	-8.26%	4.54%	12.07%	4.46%	6.16%	3.55%	-0.23%	-1.66%	1.92%
b) Other	12.30%	12.19%	10.31%	11.02%	8.42%	14.84%	15.46%	15.38%	15.68%	15.75%	15.84%	15.90%	15.90%
4. Electricity, Gas and Water	9.16%	10.40%	15.81%	9.45%	-22.78%	7.14%	20.00%	31.88%	32.78%	19.72%	27.76%	25.88%	20.07%
5. Construction	2.46%	10.03%	32.57%	24.43%	41.68%	34.46%	25.29%	10.52%	2.58%	9.11%	10.26%	10.10%	-6.23%
6. Wholesale & Retail Trade Restaurants and Hotels	4.27%	9.04%	19.98%	18.04%	18.30%	21.41%	23.60%	23.39%	20.17%	25.21%	18.41%	15.08%	12.66%
7. Transport, Storage & Communications	18.10%	5.18%	19.75%	20.28%	-42.04%	22.58%	22.09%	22.71%	15.29%	14.25%	8.50%	8.16%	8.90%
8. Finance, Insurance, Real Estate & Business Services:													
a) Ownership of Dwellings	4.84%	5.63%	7.51%	9.78%	90.97%	17.15%	17.74%	11.99%	10.00%	9.99%	6.03%	4.98%	5.01%
b) Other	1.41%	5.00%	11.11%	12.86%	23.42%	15.38%	18.37%	14.27%	17.42%	13.99%	16.28%	15.06%	11.01%
9. Community, Social and Personal Services	6.30%	7.51%	5.51%	8.01%	2.90%	13.79%	13.77%	13.80%	13.62%	4.12%	9.17%	9.23%	7.39%
10. Less: Imputed Bank Service Charge	4.35%	-4.17%	-8.70%	9.52%	28.26%	18.64%	41.43%	45.45%	36.81%	26.90%	25.20%	5.11%	3.95%
B. Producers of Govt. Services	2.62%	6.50%	8.02%	9.89%	11.99%	13.00%	2.11%	4.98%	5.99%	6.52%	10.29%	7.02%	7.29%
Total Except Imported Duties	14.15%	15.52%	19.95%	15.16%	0.94%	8.60%	14.80%	6.22%	6.60%	10.18%	7.99%	1.73%	-10.86%
Import Duties													
Gross Domestic Product	14.41%	15.35%	19.74%	15.08%	0.26%	8.63%	15.11%	5.95%	6.69%	10.11%	7.92%	1.65%	-10.86%

Source: SAMA 1995, p179-182.

the public sector. From the beginning of the decade, the Agricultural sector declined its share of the contribution to GDP. As mentioned by Johany (1986:18) and Presley and Westaway (1989:16) this was not due to a decline in growth but rather due to relatively slower growth rates than in the other sectors. Table 3.9 shows the different growth rates of the different sectors. Most sectors generally grew due to government subsidies and spending to increase economic diversification. The sectors that showed the fastest growth rates include Construction; Transport, Storage and Communication; and Ownership of Dwellings. Thus as concluded by El Mallakh (1982:28):

> "The economy's structure shifted in favour of crude oil and gas production and construction and away from some important sectors of the economy, especially agricultural activity".

3.5.2.4. The Balance of Payments and Trade.

The current account of the Balance of Payments also reflects the good fortunes of Saudi Arabia during this period. Due to the increased oil prices the current account surplus increased by 30 percent in 1974 (calculated from Table 3.10). By 1978, a deficit of around US$2 billion occurred. Again, this was short lived due to the oil price increase in 1980; the value of exports increased by 72.8 percent in 1980 and the current account surplus reached US$41 billion.

As can be seen from the Balance of Payments during the boom period, there was an increase in Saudi Arabian exports and imports. As Johany (1986:71) mentioned in 1974 Saudi ranked 34th among the world's importers, three years later it was ranked in 11th place. Johany (1986:72-44) noted that the nature of the imports changed with the increase in oil prices and Saudi Arabia's move towards industrialisation. In 1972 the most important imports were mass consumption products: food items, cigarettes, medicines, cars and textiles. By 1977 the relative importance of consumer goods had declined (except for cars) and investment goods had become more important. Due to the change in the nature of imports the origins of the imports also changed. Thus the share of the countries producing industrial goods increased i.e. USA, Japan and Europe.

Table 3.10: Balance of Payments, Current Account.
Millions of US Dollars
Minus signs indicates debit

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Balance of Payments										
Goods: exports	4,058	7,702	30,870	27,888	36,314	41,052	37,534	58,771	101,574	112,422
Goods: imports	-1,197	-1,853	-3,569	-6,004	-10,385	-14,698	-20,020	-20,911	-25,563	-29,889
Trade Balance	2,861	5,849	27,301	21,884	25,929	26,354	17,514	37,860	76,011	82,533
Services: credit	217	356	645	841	1,074	1,407	1,627	4,079	5,191	7,021
Services: debit	-509	-995	-2,163	-4,375	-7,935	-10,272	-14,396	-27,318	-30,231	-40,236
Balance on goods & services	2,570	5,250	25,783	18,351	19,068	17,489	4,745	14,621	50,972	49,318
Income: credit	106	205	1,220	1,839	2,884	3,989	4,301	4,915	7,443	10,956
Income: debit	-162	-2,048	-2,445	-2,124	-3,280	-4,079	-4,512	-2,065	-6,917	-9,599
Balance on goods & serv., & inc.	2,514	3,407	24,558	18,066	18,671	17,398	4,533	17,472	51,498	50,675
Current transfers: credit	-	-	-	-	-	-	-	-	-	-
Current transfers: debit	-425	-888	-1,532	-3,681	-4,312	-5,407	-6,745	-7,266	-9,995	-11,048
Current Account	2,089	2,520	23,025	14,385	14,360	11,991	-2,212	10,206	41,503	39,627

Source: IMF International Financial Statistical Yearbook, 1995:660-1.

Table 3.11: Percentage Distribution of Merchandise Exports by Major Commodity Groups

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Crude petroleum	83.2	88.2	90.5	92.3	94.3	92.8	93.9	94.9	94.2	93.9	94.5	94.8
Petroleum products	16.5	11.7	9.2	7.4	5.5	6.5	5.8	4.8	5	5.2	4.7	4.4
Other	0.3	0.2	0.3	0.3	0.2	0.7	0.3	0.3	0.8	0.9	0.8	0.7
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: Ministry of Planning, Achievements of The Development Plans 1970-1984, 1989:67.

The importance of crude oil can once again be seen in Table 3.11. In 1981 Crude Petroleum accounted for 94.8 percent of total exports and between 1973 and 1981 the average share of exports was 93.95 percent. The export share of Petroleum Products has steadily declined, from 16.5 percent in 1970 to 4.4 percent in 1981. Other exports only accounted for 0.7 percent in 1981. As for imports and exports a decline in share does not necessarily mean a decline in absolute terms, but shows changes in the structures of the economy.

3.4.2.5. Problems faced by the Economy.

As noted by Presley and Westaway (1989:1,9) and El Mallakh (1982:37) with the changes in the economy new problems were created. Firstly, there was a shortage of skilled and unskilled labour and physical infrastructure. To deal with this the first two development plans had a policy of importing labour and embarked on a massive infrastructure development phase. By the Third Development Plan there was a shift away from infrastructure as most of the projects were completed. The other problem during this period was inflation. The increase in inflation can be seen in Table 3.12, in 1975 money supply (M1) increased by 62.6 percent and by 83.2 percent in 1976. There was also an increase in the growth of private sector liquidity (M3). There were a number of reasons for this increase:

- SAMA (1977:3) attributed inflation to increased levels of domestic government spending. SAMA went on to say that the government had decided to regulate the growth of its Riyal spending;
- Johany (1986:25) noted that due to poorly developed physical and social Saudi Arabia's absorptive capacity for investments is reduced which results in inflation; and
- Whilst Azzam (1993:19) noted that inflation was imported as well as created domestically.

Table 3.12:Annual growth Rates of Money Supply
(%) End of financial year figures.

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Money Supply (M1)	3.5	11.5	24.9	45.6	38.4	62.6	83.2	59.5	45.1
Money Supply (M2)	7	12.5	25.9	39.1	34.6	63.3	73	56.2	46.4
Money Supply (M3)	7.3	12.1	27.4	38.8	40.4	61	73.9	52.7	43.6

Source: Ministry of Planning, Achievements of the Development Plans 1970-84:178

	1979	1980	1981	1982	1983	1984
Money Supply (M1)	11.5	10.2	14	20.8	13.7	-0.8
Money Supply (M2)	13	23.1	24	23.4	12.8	3.3
Money Supply (M3)	14.5	21.8	26.2	26.6	12.5	7.1

Source: Ministry of Planning, Achievements of the Development Plans 1970-84:178.

SAMA (1979:4) noted inflationary pressures were removed due to fiscal policy aimed at regulating and rationalising public spending and the decelerated rate of growth of private sector liquidity. Also, due to the removal of most major supply bottlenecks, there was a greater flow and smoother distribution of resources to meet the demands of the expanding domestic sector. The reduction in the growth rates of M1 and M3 can also be seen in Table 3.12.

In conclusion, the boom years saw the Saudi economy totally transformed. The bulk of the oil windfall went to the Government. Thus, there was a massive increase in revenue and an overall increase in the budget surplus and current account. This was followed by an increase in government expenditure (for diversification and redistribution purposes), which in turn fuelled high growth rates for the economy. There was a shift in the economy towards the oil sector and the construction sector. During this time both imports and exports (mostly crude petroleum) increased. The oil windfall meant that previous bottlenecks to development such as lack of infrastructure could be overcome, which was previously never possible. The high level of spending caused inflationary pressures, but reduced public spending decreased the rate of inflation.

3.6. THE RECESSION YEARS: 1982 - 1989.

3.6.1. The Fourth Five Year Development Plan.

Unlike the previous plans, the Fourth Plan (1985-1990) was formulated and introduced at a time of severe economic contraction due to lower oil prices and reduced demand for Saudi oil. A point of particular interest is that despite the sharp fall in revenue, the new budget called for an average annual public expenditure of US$55 billion in 1985-1990. In the 1984 financial year, the base year for the plan, government oil revenues were less than US$34 billion, including transfers of profits to the treasury from the two state-owned oil companies (Kanovsky 1996:24). The planners believed that the prices and demand for Saudi oil would increase and the large deficits of 1983 and 1984 would be cleared. The Fifth Development Plan

(Ministry of Planning, 1990:17) noted that planned expenditure was SR 1,000 billion, which was 23 percent below actual expenditure in the Third Plan. The Sixth Development Plan (Ministry of Planning, 1995:45-6) noted that the sector with the greatest spending was Human Resource Development (accounting for 33 percent) and that this was a reflection of the plans concentration on "qualitative development" [13].

In many ways the Fourth Development Plan continued many of the themes of the Third Development Plan, such as the role of the private sector and reducing foreign labour, but the emphasis on the role of the private sector was greater. Some of the key goals of the Fourth Development Plan are listed below:

1. The importance of industry to diversify the Economy. Previous plans also aimed to diversify the economy, however the Fourth Development Plan emphasised the importance of industry in this process, agriculture is expected to play a smaller role (Ministry of Planning, 1985:34-5).
2. Increased efficiency of the countries resources and facilities, and the government sector.
3. Reduction in the number of foreign nationals by 22.6 percent (Ministry of Planning, 1985:50-1), and some labour saving devices will be introduced to reduce the dependence on foreign labour and increase the skill base of the Saudi labour. The private sector was also expected to replace 374,000 expatriates by an equivalent number of Saudis. The Plan noted that "this was one of the most important targets of the plan."
4. A more active role of the private sector. Many of the key goals and objectives of the Plan were to be carried out by the private sector, i.e. the principal mechanism of economic diversification. To facilitate this, financial provision were made to support and encourage the private sector to increase its contribution to development.

Due to the drop in oil revenue resulting from the collapse in oil prices in 1986, it is generally considered that the Fourth Development Plan did not achieve its goals. This was especially true in the area of public utilities, where many of the projects

[13] Only four categories are included. Human resources were followed by Infrastructure (28.9 percent), Economic Resources (20.4 percent) and Health and Social (17.7 percent).

were delayed. GDP fell during the Fourth Plan period. Non-oil GDP decreased at an average annual rate of 0.8 percent during the Fourth Plan years (Ministry of Planning, 1990:25). The Fifth Plan noted that the economy exhibited considerable resilience and during this period the economy has reached a state of lessened dependence on government spending as its driving force (one of the goals of the Plan).

3.6.2. THE PREFORMANCE OF THE ECONOMY DURING THE RECESSION YEARS.

3.6.2.1. General.

Just as the high oil prices had caused high growth rates between 1973 to1981, a slump in the prices of oil and a subsequent reduction in government expenditure caused a recession in the Saudi economy during the 1980s. As can be seen from Table 3.5, the price of oil has fallen from 1981, also there were reductions in crude oil production. In 1982 and 1983 production decreased by 33.90 percent and 29.98 percent respectively (Table 3.5). As mentioned by Wilson and Graham (1994:182) and Kanovsky (1996:20) Saudi Arabia stopped acting as OPEC's floating producer in an attempt to increase oil prices.

3.6.2.2. The Budget – Government Revenue and Expenditure.

As oil revenue is the major source of Saudi revenue (accounting for an average of 59 percent between 1982-9), the fall in the oil prices greatly affected Saudi Arabia's revenue in a negative way. Saudi Arabia is still very vulnerable to fluctuations in oil prices due to its very limited revenue base. In 1982 Saudi Arabia's Total Revenue fell by 33.6 percent and Oil Revenue fell by 43.8 percent (Table 3.7 and 3.13). Oil revenue and total revenue consistently fell until 1987. In 1987 there was an increase in oil revenues. As a result there were cuts in expenditure, which continued to fall from 1981 to 1987. 1982 saw a sharp decrease in the budgetary balance and from 1983 Saudi Arabia has seen a budget deficit. As a result of the higher oil revenue in 1987 there was an increase in expenditure in 1987 (see Table 3.13).

Table 3.13: The Saudi Budget, 1982-1993 (in billions of dollars).

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Total Revenues	71.8	59.6	48.4	36.7	26.4	31.3	22.6	32.4	42.3	42.3	44.1	45.2
Oil revenues	54.2	41.9	29.3	16.8	13.1	16.1	12.9	21.1	32.9	32.9	33.9	35.8
Investment Income	14	13.6	9	6.3	5.7	4.8	3.2	4	2.6	2.1	2.4	2.2
Special Transfers	-	-	4.3	7.1	2.1	4.6	-	-	-	-	-	-
Other Revenues	3.6	4.1	5.8	6.4	5.5	5.8	6.5	7.3	6.8	6.8	7.8	7.1
Total Expenditures	71.4	66.4	61	50.6	46.4	49.5	36	40.1	61.1	61.1	54.7	48.6
Projects	36.3	23.9	22.5	14.4	12	15.4	6.8	9.3	7.8	7.8	13.4	7.5
Operations and Maintenance	-	7.7	7.3	6.7	6.2	6.1	5	5.7	6	6	6.3	6.6
Military	19.4	18.4	19.1	16.4	14.2	14.1	12.8	13	15.7	15.7	15.2	11.5
Foreign Aid	3.9	3.7	2.9	3	2.7	3.1	2	1.7	2.2	2.2	0.6	0.5
Emergency	-	-	-	-	-	-	-	-	14.9	14.9	-	-
Others	11.8	12.7	9.2	9.8	11.4	10.8	9.4	12.4	14.4	14.4	19.2	22.4
Budgetary Balance	0.4	-6.9	-12.6	-13.9	-20.1	-18.2	-13.4	-7.7	-18.8	-18.8	-10.6	-3.4

Source: SAMA (Annual Reports; MEED), EIU (Country Reports and Profiles), Middle East Economic Survey.
(Cited in Kanovsky 1996:appendix II)

As Wilson and Graham (1994:188) noted the upturn was short lived as oil prices soon fell, followed by a fall in revenue and government expenditure reached its lowest levels.

Table 3.13, shows budgeted expenditure classified by sector; all sectors saw a decline. Linderoth (1992:1081) noted that infrastructure was a big loser, with no allocation in the financial year of 1985-86. Azzam (1993:21) mentioned that this was due to the completion of most of infrastructure projects. Government lending to institutions and economic resource development also lost their share of the budget expenditure. Wilson and Graham (1994:184) noted that during the recession the government also cut back on aid including to the five state lending agencies[14]. Despite this, Kanovsky (1996:29) concluded that the government would rather cover the deficit by drawing down financial reserves, rather than cut spending any further, and thereby depress the standard of living to a greater extent.

Until 1987 the budget deficit was covered by drawing on foreign assets and from 1988 the budget deficit was financed through the sale of government bonds to commercial banks and autonomous government institutions (Azzam, 1993:22; Kanovsky, 1996:29). Kanovsky valued the outstanding bonds at the end of 1989 at roughly US$20 billion. Azzam (1993:23) and Kanovsky (1996:30) also noted that the budget deficit was made worse due to falling interest rates overseas during the 1980s. Thus, there was a fall in the Government's investment income from US$14 billion in 1982 to US$4in 1989 (Table 3.13).

3.6.2.3. The Structure and Growth of the Economy.

The cut in expenditure produced a recession that was felt by the economy as a whole, by firms (both Saudi and international) and by individuals. As can be seen by the SAMA figures of GDP growth rates (Table 3.14), there were negative growth rates in the GDP until 1988 (except for 1986). 1982 saw the largest drop in GDP growth rates of 10.86 percent in the SAMA figures. 1986 and 1988 showed higher growth rates, which corresponds with higher growth rates in the Crude Petroleum

[14] There five state lending agencies are Saudi Agricultural Bank, Saudi Credit Bank, Public Investment Fund, Saudi Industrial development Fund and Real Estate Development Fund.

Table 3.14: Percentage Growth Rates of GDP and Economic Sectors.

	1983	1984	1985	1986	1987	1988	1989	1990
A. Industries and Other Producers Except Producers of Gov. Services								
1. Agriculture, Forestry & Fishing	13.00%	18.42%	17.95%	15.03%	16.39%	10.78%	7.01%	6.99%
2. Mining and Quarrying:								
a) Crude petroleum & Natural Gas	-13.08%	-9.21%	-22.08%	50.77%	-14.18%	21.86%	-0.78%	25.53%
b) Other	-2.62%	1.61%	-3.70%	-2.75%	-2.26%	1.16%	3.43%	3.31%
3. Manufacturing:								
a) Petroleum Refining	13.15%	-1.41%	22.14%	4.11%	28.62%	15.10%	-8.28%	5.55%
b) Other	13.10%	12.04%	5.46%	-2.80%	-0.34%	2.99%	3.98%	5.49%
4. Electricity, Gas and Water	17.26%	-53.67%	6.88%	5.41%	5.91%	6.04%	5.09%	5.01%
5. Construction	-8.70%	-3.81%	-16.91%	-12.35%	-2.84%	-4.99%	-0.52%	0.00%
6. Wholesale & Retail Trade Restaurants and Hotels	1.90%	0.50%	0.08%	-3.80%	-1.74%	-0.99%	-1.00%	2.00%
7. Transport, Storage & Communications	11.07%	2.42%	-0.24%	-2.72%	-2.41%	1.00%	0.51%	3.51%
8. Finance, Insurance, Real Estate & Business Services:								
a) Ownership of Dwellings	2.00%	-2.75%	-10.57%	-17.20%	-4.34%	-0.12%	0.00%	2.02%
b) Other	2.75%	-7.56%	-5.16%	-12.17%	1.88%	4.99%	3.19%	3.47%
9. Community, Social and Personal Services	-0.70%	7.50%	13.68%	-4.05%	-1.21%	3.17%	1.54%	3.03%
10. Less: Imputed Bank Service Charge	0.29%	7.00%	-3.27%	-5.07%	-4.15%	-1.86%	1.58%	1.86%
B. Producers of Govt. Services	5.99%	9.63%	5.69%	0.27%	-0.46%	0.31%	2.66%	22.95%
Total Except Imported Duties	-0.07%	-2.40%	-4.07%	5.73%	-1.44%	6.61%	0.49%	10.76%
Import Duties								
Gross Domestic Product	-0.11%	-2.22%	-4.05%	5.56%	-1.38%	7.56%	0.18%	10.66%

Source: SAMA 1995, p179-182.

Table 3.15: Gross Domestic Product by Type of Economic Activity
At producers values and at constant Prices (1970 = 100)
(Million Riyals)

	1982	1983	1984	1985	1986	1987	1988	1989	1990
A. Industries and Other Producers Except Producers of Gov. Services									
1. Agriculture, Forestry & Fishing	2,023	2,286	2,707	3,193	3,673	4,275	4,736	5,068	5,422
2. Mining and Quarrying:									
a) Crude petroleum & Natural Gas	12,038	10,464	9,500	7,402	11,160	9,578	11,672	11,581	14,538
b) Other	191	186	189	182	177	173	175	181	187
3. Manufacturing:									
a) Petroleum Refining	1,749	1,979	1,951	2,383	2,481	3,191	3,673	3,369	3,556
b) Other	2,298	2,599	2,912	3,071	2,985	2,975	3,064	3,186	3,361
4. Electricity, Gas and Water	1,686	1,977	916	979	1,032	1,093	1,159	1,218	1,279
5. Construction	5,837	5,329	5,126	4,259	3,733	3,627	3,446	3,428	3,428
6. Wholesale & Retail Trade Restaurants and Hotels	8,212	8,368	8,410	8,417	8,097	7,956	7,877	7,798	7,954
7. Transport, Storage & Communications	3,985	4,426	4,533	4,522	4,399	4,293	4,336	4,358	4,511
8. Finance, Insurance, Real Estate & Business Services:									
a) Ownership of Dwellings	3,605	3,677	3,576	3,198	2,648	2,533	2,530	2,530	2,581
b) Other	1,815	1,865	1,724	1,635	1,436	1,463	1,536	1,585	1,640
9. Community, Social and Personal Services	712	707	760	864	829	819	845	858	884
10. Less: Imputed Bank Service Charge	-342	-343	-367	-355	-337	-323	-317	-322	-328
B. Producers of Govt. Services	4,222	4,475	4,906	5,185	5,199	5,175	5,191	5,329	6,552
Total Except Imported Duties	48,031	47,995	46,843	44,935	47,512	46,828	49,923	50,167	55,565
Import Duties	311	292	374	369	312	337	810	658	678
Gross Domestic Product	48,342	48,287	47,217	45,304	47,824	47,165	50,733	50,825	56,243

Source: SAMA 1995, p179-182.

and Natural Gas sector[15]. Thus the downward spiral bottomed out in 1987. As seen earlier the higher oil revenue in 1987 and the subsequent expenditure (which can be seen in Table 3.13) caused the economy to grow slightly, for the first time in six years. The increase in expenditure was an attempt to revitalise the private sector; the government also tried to stimulate the economy by releasing several billion dollars to settle outstanding payments. Thus, both the boom period and the recession years illustrate the strong impact of oil sector on government revenue and expenditure. Government expenditure was the main agent behind economic growth or decline. Thus, despite Saudi Arabia's attempts to diversify the economy, it still remains a one commodity economy.

Crude petroleum and natural gas still remained the most important sector contributing to GDP, although it saw a slight decline from 1982 of 25 percent to 23 percent in 1989 (calculated from Table 3.15). Although from 1982 its percentage share declined to its lowest point in 1985 (16.47 percent), and then increased. The crude petroleum and natural gas showed negative growth rates from 1982 to 1989 (except of 1986 and 1988).

The productive sectors saw an increase in their share of the GDP. Agriculture saw its share of the GDP grow from 4.21 percent in 1982 to 10.10 percent in 1989 (calculated from Table 3.15). Azzam (1993:16) attributed this to price support policy and other government incentives, as well as the adoption of modern farming techniques. As mentioned before, the government preferred to draw on foreign reserves rather than reduce subsidies further. Both petroleum manufacturing and other manufacturing increased their share to 6.73 percent and 6.35 percent respectively. Although other manufacturing did record negative growth rates during the mid-1980s, Azzam (1993:16) put this down to the contraction in the domestic economic activity.

The construction sector greatly contracted during this time period; its share of the GDP fell from 12.15 percent in 1982 to 6.17 percent in 1989 (calculated from Table 3.15). Construction had an average growth rate of -4.86 percent for the period

[15] Azzam (1993:14-5) also noted that as oil GDP started recovering so did the total GDP, albeit more slowly than the oil sector.

between 1982 to 1989. As previously mentioned this was due to the completion of many of the infrastructural projects, and a reduction of government expenditure. Finance, insurance real estate and business services also saw a reduction in its share of the GDP and negative growth rates during this period. Real estate prices also dropped sharply during this period (Kanovsky 1996:31).

3.6.2.4. The Balance of Payments and Trade.

The oil crisis can also be seen in the balance of payments. Since 1983, Saudi Arabia has had a deficit in its current account (see Table 3.16). Azzam (1993:28) noted that the trade surplus and the deficit on the invisible transactions had been reduced due to decline in oil exports earnings and service payments. During the recession years, goods exported fell from a peak of US$112 billion in 1981 (see Table 3.10) to a low of US$20 billion in 1986 . Whilst Saudi Arabia remained in credit on its trade balance it fell to a low of US$3 billion in 1986 (Table 3.16). Linderoth (1992:1081) noted that the huge surpluses in the boom years were based on the large trade surplus, due to the rocketing oil prices. Thus with the contraction of the trade balance, the current account fell in to deficit. As mentioned before the government used foreign investments to finance the budget deficit, so much so that net deposits were down to US$10 billion (Linderoth, 1992:1082).

Along with the decline in the level of exports the composition also changed (Table 3.17). Between 1982 and 1987 the share of crude petroleum dropped from 92.7 percent to 60.5 percent. With the sharp fall of oil exports the contributions of other sectors increased - the share of petroleum products increased to 25.2 percent. These were products from the plants created in Yanbu and Jubail. Other exports comprised mainly of wheat and light manufacturing. These remained low until 1986 and then increased rapidly due to various export promotion measures (Azzam, 1993:29). Azzam also noted that with the decline in imports the main areas to be affected were capital goods, construction materials and transport equipment.

Table 3.16: Balance of Payments, Current Account 1992-1989.
Millions of US Dollars
Minus signs indicates debit

	1982	1983	1984	1985	1986	1987	1988	1989
Balance of Payments								
Goods: exports	74,203	45,864	37,545	27,478	20,185	23,199	24,377	28,385
Goods: imports	-34,444	-33,218	-28,557	-20,364	-17,066	-18,283	-19,805	-19,231
Trade Balance	39,759	12,646	8,987	7,115	3,119	4,916	4,571	9,154
Services: credit	4,565	4,151	4,112	3,561	2,606	2,515	2,294	2,510
Services: debit	-34,852	-37,259	-32,856	-25,822	-20,336	-18,830	-14,935	-19,874
Balance on goods & services	9,472	-20,462	-19,757	-15,146	-14,611	-11,399	-8,069	-8,211
Income: credit	14,060	15,868	13,366	12,418	11,279	10,537	10,454	10,433
Income: debit	-6,210	-3,022	-3,127	-1,756	-659	-676	-716	-1,017
Balance on goods & serv., & inc.	17,321	-7,616	-9,518	-4,484	-3,991	-1,538	1,669	1,204
Current transfers: credit	-	-	-	-	-	-	-	-
Current transfers: debit	-9,746	-9,237	-8,882	-8,448	-7,804	-8,235	-9,009	-10,742
Current Account	7,575	-16,852	-18,401	-12,932	-11,795	-9,773	-7,340	-9,538

Source: IMF, International Financial Statistical Yearbook, 1995:660-1.

Table 3.17: Percentage Distribution of Merchandise Exports by Major Commodity Groups

	1982	1983	1984	1985	1986	1987
Crude petroleum	92.7	89.7	86.6	85.3	73	60.5
Petroleum products	6	8	10.1	12.1	17	25.2
Other	1.2	2.3	3.3	2.6	10.1	14.3
Total	100	100	100	100	100	100

Source: Ministry of Planning, Achievement of the Development Plans 1970-1984, 1989:67.

The period between 1982 and 1989 were very dark years for the Saudi economy. With the reduction in oil prices, the government's revenue declined resulting in reduced government expenditure. This plunged Saudi Arabia into a deep recession, with slower growth at the end of the decade. As a result there were many bankruptcies and increased unemployment. As well as the cuts in expenditure, the government also implemented several cost-cutting measures. These included open bidding on all new contracts and the government halved the advanced payments to contractors (Wilson and Graham, 1994:182-3). This caused cash flow problems for many of the contractors. Most importantly, many contractors experienced delays in payments for months or even years. The delayed payments soon reached billion dollar levels. Graham and Wilson (1994:182-3) noted that the Korean Embassy estimated that its contractors were owed at least US$4 billion in 1986; a similar amount was owed to French contractors. Saudi companies were also hit by delays, thereby creating a shortage of funds. This caused a domino effect to subcontractors and suppliers. As a result many Saudi firms in the private sector went bankrupt. During this period the gap in income distribution widened.

In addition, there was a significant increase in unemployment especially among high school and university graduates (US embassy in Riyadh cited in Kanovsky, 1996:30; Azzam, 1993:17). At the beginning of the period, there were large surpluses in the current account and in the budget; at the end of the period, these both showed deficits. As a result of this the Saudi government called on the private sector to take a more active role in development.

If the 1970s saw a relative move to the oil and construction sectors the 1980s saw the opposite. The oil sector slightly lost some of its share of the GDP and exports. The construction sector saw a massive decline. Although the productive sectors increased their share of GDP[16] this does not mean the government has been successful in its aims of diversifying the economy. The growth in agriculture was due to government subsidies; thus rather than reduce Saudi Arabia's dependence on oil it can be argued that it has increased it.

The industry that developed in Saudi Arabia has very much been a result of government loans and subsidies (as will be argued in chapter 4). Results of industrial development apart from SABIC have been disappointing (Looney, 1996:38). Unlike South Korea and Taiwan the industrial sector was not dynamic and was not an engine for further growth and development. Auty (1990:152) also noted that the resource based industries (RBI) failed to diversify the economy. They absorbed a large amount of GDP, but their contribution to value added was far less than expected. He cited the Financial Times (1986) in giving the example of SABIC, whose assets in 1985 exceeded US$6 billion while total project investment was twice that amount (excluding the US$15 billion on infrastructure with a further US$4.5 billion in the pipeline). Without integration into higher margin downstream plants SABIC could do little better than break even with a 1985 profit of US$15.5 million. The cost effectiveness of Saudi petrochemical plants was also reduced as petrochemical prices also slumped in the 1980s. RBI also failed to act as a stimulus to other industries to diversify the economy.

[16] Presley and Westaway (1989:18) disagree with this. They felt as a result of the Third and Fourth Development Plans the overall share of the productive sector fell whilst most service sectors recorded gains.

3.7. A PERIOD OF MIXED GROWTH: 1990 - PRESENT.

3.7.1. The Fifth and Sixth Five Year Development Plan.

The Fifth and Sixth Development are very much a continuity of the Fourth Plan, and the Plans aim to enhance and broaden the main objectives. The Fifth Development Plan aimed to achieve economic recovery and stabilisation and lead to steady economic growth of the economy (Ministry of Planning, 1990:93). Due to the downturn in oil revenue the emphasis of the Plan was firmly placed on encouraging the private sector to build on the economic foundations laid by the government. The central themes of the Plan can be illustrated by the following quote from the Sixth Development Plan (1995:46):

> "…. through appropriate regulatory policies and support measures, it gave the highest priority to the private sector's role in accelerating the process of economic diversification. Another aspect that gave the Fifth Plan its own unique feature was the increased emphasis on new long-term initiatives. Other priorities include the acceleration of the Saudiisation process through strengthening the capacity of the labour force…"

As seen above, the Fifth Plan emphasised the replacement of non-Saudi labour with trained and skilled Saudi Labour. The Plan aimed to increase employment by an average annual rate of 0.7 percent, and the private sector is expected to account for almost 96 percent of the growth. Saudi Employment was projected to increase by 4.2 percent a year, whilst non-Saudi employment was expected to decline by 1.2 percent annually, i.e. by 220,400 (Ministry of Planning, 1990:119). Thus, the successful absorption of Saudi new entrants to the labour market during the Fifth Plan depended on the ability and willingness of employers to:

- replace 220,400 non-Saudi workers with Saudis; and
- employ Saudis in the 213,500 new jobs that were expected to be created during the Fifth Plan period.

The Plan identified four principal contributions for the long term economic objectives of the Kingdom that were expected to be fulfilled by the private sector (Ministry of Planning, 1990:140-1):

1. To help diversify the economy by investing in agriculture and manufacturing. The Plan also stressed the need for greater private sector participation in areas previously dominated by the government, such as utilities and transport (Ministry of Planning, 1995:46)
2. To provide productive employment for the Saudi Labour force.
3. To deploy private capital in the economy. The Plan (Ministry of Planning, 1990:141) noted that although the private sector has accumulated substantial financial assets as a result of strong economic growth in the past, only a relatively small fraction had been invested in the Kingdom. The plan aimed to utilise this resource for economic growth.
4. To strengthen the adaptive capacity of the Economy. Mainly by developing a highly skilled, knowable, entrepreneurial, and competitive private sector. As noted by the plan (1990:141):

> "Such a private sector will be the source growth, diversification, and attractive employment opportunities for the Saudi labour force, and will foster greater economic efficiency, the upgrading of technology capability in the Kingdom, and thereby the capacity to innovate the new challenge."

Privatisation was seen as a way to achieve many of the goals of the Fifth Development Plan (Ministry of Planning, 1990:146):

> "An effective privatisation program can contribute to a number of key goals of the Plan: increasing private sector investment in the economy; increasing economic efficiency and innovation; increasing competition; reducing subsidies; and encouraging a wider distribution of ownership of economic resources"

The Plan called for the sale of SABIC shares to the public, but as noted by the EIU (1996-7:17) the share sale never materialised and no similar aim was repeated in the Sixth Development Plan. Also, despite the emphasis on privatisation no specific proposals for privatisation were made (EIU, 1996-7:14).

Due to Iraq's invasion of Kuwait and the following war Saudi Arabia increased its defence spending, which accounted for 34 percent of the total expenditure of the Fifth Development Plan.

As with the Fifth Development Plan the Sixth Plan continues with the long-term goals of the previous development plans. The Private sector is expected to increase its contribution in provision of jobs for Saudis, diversifying the economy. The private sector is expected to move into areas previously dominated by the government, one of the ways this will be done is through privatisation. As noted by the Sixth Development Plan (Ministry of Planning, 1995:47):

> "Thus, the private sector is expected to play an increased role in financing, building and operating key facilities in the fields of basic infrastructure, economic and social services, thereby reducing the financial burden of the government."

The need to promote efficiency, reduce subsidies and enhance productivity was introduced in the Fourth Plan and these factors are emphasised in the Sixth Plan (Ministry of Planning, 1995:47). Economic efficiency will be increased as a result of raising labour productivity through training, by using the latest technology and by implementing programmes for the fuller utilisation of existing infrastructure.

The Plan also aims to eliminate the budget deficit by the year 2000 mainly through reducing expenditure and increasing non-oil revenue (by charging higher prices for publicly supplied goods and services and reduced subsidies). The emphasis of the Plan was on the human side - to develop productive Saudi citizens and improve the capability of the national pool of human resources. As in the Fifth Development Plan, privatisation was seen as a way of increasing the role of the private sector, especially in the light of the fiscal deficit. Again no specific targets for privatisation were mentioned in the Plan, except for the electricity utilities (although the Plan called for its sale in the medium to long term).

3.7.2. PERFORMANCE OF THE ECONOMY SINCE 1990.

3.7.2.1. General.

The 1990s so far have seen mixed fortunes. As seen before, the changes in the fortune of the economy was a result of oil prices and government spending. Firstly the Gulf war caused a mini-boom in the economy as well as higher oil prices; this was followed by a period of slow economic growth due to low oil prices and government expenditure. From the end of 1995 to 1997 the economy picked up due to the increase in price of oil. Since the end of 1997 and early 1999 Saudi Arabia faced difficult economic times as a result of low oil prices. Meed (11/6/99:9) noted that oil prices kept hit a low of US$9 a barrel in December 1998 and that Saudi Arabia faced gloomiest economic condition at this point since the mid-1980s. With cuts in OPEC production and increased demand from key Asian markets and stable US demand has resulted in higher oil prices. Brent reached US$17 a barrel and US$21 a barrel in August.

3.7.2.2. The Budget – Government Revenue and Expenditure.

From mid-1990 there was an increase in the oil prices due to a number of factors. Due to the developing Gulf crisis there was an oil embargo on Iraqi oil and reduced Kuwaiti production (even after the Gulf war, it took a number of years for Kuwaiti oil production to reach pre-war levels). Another factor unrelated to the Gulf situation was the large drop in oil production from the former Soviet Union. The invasion caused oil prices to it a high of US$40 per barrel, although later it did fall back down (Wilson and Graham, 1994:188). After the oil prices soared, Saudi Arabia increased its oil production to cover the shortfall in production created by Iraq and Kuwait. As can be seen in Table 3.5 there was an increase in production by roughly 26 percent in 1990. Increased production and oil prices meant that Saudi revenues greatly increased from US$32.4 billion in 1990 to US$42.3 billion in 1991. As a result of the Gulf crisis government expenditure was far greater than revenue. Azzam (1993:130) estimated that the Gulf crisis cost Saudi Arabia US$55 billion, which is the equivalent of 56 percent of GDP. Kanovsky (1996:69) claimed that other sources have put the figure at no less than US$65 billion. These ‘emergency expenditures' covered in addition to its own army mobilisation costs but also the local costs of allied forces and reimbursed the US, UK and France much of their war expenses and the some of the debts of friendly countries such as Egypt were forgiven. Saudi Arabia also increased its defence spending and as a result of the war. As a result the budget deficit grew from US$-7.7 billion to US$-18.8 billion; this is probably a conservative estimate as some of the military expenditure was not included in the budget (Kanovsky, 1996:70). Again this deficit was paid by running down financial reserves through sales bonds, and borrowing from international markets (US$4.5 billion) and domestic banks (US$2.5 billion) (Azzam 1993:185).

In 1994, oil prices fell to US$11 a barrel and government oil revenues fell by 29 percent (Meed, 3/11/95:34). The government also set a target for government spending to be reduced by 19 percent in 1994 (Meed, 11/11/94:34). The IMF (1998:34) noted that following the 1990-91 regional crisis, fiscal policy was directed at resuming budgetary adjustment efforts in order to contain the build up of public debt, reduce the current account deficit, and limit the loss of foreign assets. As seen earlier in the chapter the Sixth Development Plan aimed to reduce the budget deficit by the year 2000, rationalise expenditure (including subsidies) and increase non-oil revenue.

As can be seen from Table 3.18, there was a reduction in the level of government expenditure between 1992 and 1994. Despite a reduction in revenue from 1992 to 1994 from both oil and non-oil sources, this was largely exceeded by the reduction in expenditure, which fell by 25 percent between 1990-91 and 1994 (IMF, 1998:35). The improvement in the budget deficit can be seen from Table 3.19, in 1990/1 the budget deficit was 19.2 percent, whilst in 1994 the ration had fallen to 7.7 percent. In reality the spending cuts did not reach the desired levels (IMF, 1998:35). The main areas targeted for the spending cutbacks were defence, new projects, municipalities and water authorities. In addition, subsidies for wheat production were cut by 60 percent (EIU, 1996/7:15). In 1995 the financial situation improved. Both oil revenues and non-oil revenues increased by 10.6 percent and 21.7 percent respectively. Although total expenditure increased by a small amount in 1995 (by 1.6 percent) there were many more cuts in subsidies.

Table 3.18: Saudi Arabian Budgetary Development, 1992-1998.
(billions of Saudi Arabian Riyals)

	1992	1993	1994	1995	1996	1997	Budget 1998
Total Revenues	169.6	141.4	129	146.5	178.8	205.5	178
Oil	128.8	106	95.5	105.7	136	160	127
Non-oil	40.9	35.5	33.5	40.8	42.8	45.5	51
Investment income	9	8.4	6	4.8	5.5	5.5	5.9
Fees and charges	10.7	9.1	10.1	18.9	18.8	24.6	24.7
Customs	9.8	8.4	8.3	7.5	8.9	9.1	9.5
Other	9.1	7.7	7.5	7.9	8.1	4.2	8.9
Total expenditure	211.3	187.9	171.1	174	198.1	221.3	196
Current expenditure	179	157.8	147.1	148.8	171.3	187.3	174.9
Wage bill	74.5	76.4	87.4	86.2	90.4	103.3	96
Supplies and services	46.5	29.7	22.1	19.5	26.2	30.3	22.3
Subsidies	11.3	10.6	4.4	6.2	7.1	4.8	6.3
Transfers 1/	1.8	0	0	0	0	0	0
Foreign aid	2.1	1.6	0.5	0.3	0.3	0.3	0.3
Interest	14.9	15.7	15.3	19.5	23.6	24.4	26
Operations and maintenance	28	23.9	17.4	17.1	23.6	24.1	24
Capital (project) expenditure	32.3	30.1	24	25.2	26.9	33.9	21.1
Current deficit/surplus 2/	-9.4	-16.3	-18.1	-2.3	7.6	18.2	3.1
Overall deficit	-41.7	-46.4	-12.1	-27.5	-19.3	-15.8	-18

1/ Transfers to specialised Credit Institutions.

2/ Total revenue less current expenditure.

Source: Ministry of Finance and National Economy; and Fund staff estimates (IMF, 1998:36).

The domestic prices of petroleum products, electricity, water, telephones, work permits and air travel increased significantly. The EIU (1996-7:15) noted that the authorities hoped that these would increase non-oil revenue by SR12-13 billion. The NCB Economist (NCB Economist, 1997:1) also noted that Saudi Arabia was able to repay US$1.8 billion out of the US$4.8 billion of its external loans from 1991.

Table 3.19: Ratio of Budget Deficit to GDP.
(Millions Riyals)

Year	GDP (at current prices)	Budget Deficit	Ratio of Deficit to GDP
1983	372,023	23,766	6.4
1984	351,398	44,854	12.8
1985	313,942	50,439	16.1
1986	271,091	60,924	22.5
1987	275,453	69,715	25.3
1988	285,145	50,250	17.6
1989	310,823	34,900	11.2
1990 and 1991*	834,031	160,187	19.2
1992	461,398	67,160	14.6
1993	443,842	64,051	14.4
1994	450,025	34,785	7.7
1995	470,702	27,445	5.9
1996	511,332	19,032	3.7
1997**	547,413	15,772	2.9

* Allocation of 1990 and 1991 were combined in one budget.
** Preliminary forecast.
Source: Central Department of Statistics, Ministry of Planning and Ministry of Finance and National Economy (cited in SAMA, 1998:125).

The economic and financial conditions have improved considerably during 1996 and the beginning of 1997. This has been due to higher levels of oil prices and increasing expenditure. In 1996 the price of Brent crude averaged US$20.70, which was about 22 percent higher than the previous year (NCB Economist, 1997:1). The higher oil prices were sustained into 1997. As a result of increased oil revenues and a larger share of the oil receipts being transferred to the budget, the revenues have soared beyond expectation and state spending has grown after being cut for a number of years, as can be seen from Table 3.18. Government expenditure increased and it was possible to pay most of the backlog of governments debts. Debts from 1992 worth US$5,900 million were paid to farmers, contractors and medical suppliers (Meed, 21/3/97). In 1997 there was also acceleration in the implementation of projects and the start of new ones, especially schools, hospitals and roads (IMF, 1998:37). The preliminary forecast for 1997 indicates that the budget deficit as a percent of the GDP fell to 2.9 percent.

1998 has seen a totally different picture, again as an outcome of changes oil prices. The low oil prices of 1998 and the beginning of 1999 have meant that government revenues have plummeted. As a result there have been large cuts in government spending and payments. The IMF (1998b:3) estimated that the budget deficit will fall to 7.5 percent of GDP[17].

With the increase in oil prices in 1999 the outlook for the budget has improved. Reuters (9th Sept. 1999) quoted Brad Bourland, from SAMBA, as saying "Higher revenues are likely to be used for deficit reduction rather than spending increases." He forecast a sharp fall in the deficit in 1999 from SR 44 billion at the beginning of the year to SR 15 billion (US$4 billion)[18].

3.7.2.3. The Growth of the Economy.

As a result of the Gulf crisis there were large increases in GDP in 1990 and 1991 of 10.76 percent and 8.49 percent respectively (Table 3.20). This was due to a spending boom created by the arrival of the Allied troops and Kuwaiti refugees, who all had to be housed and fed. Wilson and Graham (1994:190) claimed that during this period profiteering was rife and mentioned the case of the Astra Corporation (cited from Business Week, 25/2/91). Astra is owned by many senior princes, received the contract to supply the troops with food. Astra was said to have marked up the prices so high that profit margins were about 100 percent, although Astra has denied this. Internal wartime spending, increased liquidity and boosted private

[17] Meed (26/3/99:12) quoted that the actual budget deficit in 1998 was US$12,270 million, the equivalent of about 9 percent of the GDP.

[18] Reuters (9th Sept. 1999) noted that a report from Saudi British Bank gave a slightly more conservative estimate of 20 billion Saudi Riyals. Reuters went on to say that reports by both SAMBA and Saudi British Bank attributed part of the expected improvement in government revenues to the introduction of non-oil money raising measures, including a 50 percent hike in domestic gasoline prices, the imposition of departure tax for international travellers and rise in the price of work visas. The reports calculated that the fiscal changes since May would add around US$1billion to government revenues. The SAMBA report noted that "While this only partially reduces the US$50 billion budget's dependence on oil revenues, the changes are sending an important message that the oil boom is over, government patronage must be reduced, and fiscal discipline improved."

investment resulted in high growth rates. Although the Gulf crisis caused high growth rates in GDP during 1990 and 1991, the negative impact of the gulf war was huge. This period saw an increase in the budget and current account deficit and an increase in the level of debt.

Table 3.20: Growth Rates of GDP.
(Annual real rates of growth in percent).

	1990	1991	1992	1993	1994	1995	1996p	1997pf
Total GDP*	10.8	8.5	2.7	-0.7	0.5	0.3	1.4	1.9
Oil sector GDP	22.3	23.7	6.9	-3.5	0.2	0.3	2.1	2.3
Non-oil sector GDP	6.4	2.0	0.6	0.9	0.7	0.3	1.1	1.7
Government	14.4	2.1	-2.3	5.4	0.2	-0.3	1.3	1.6
Private	3.8	2.0	1.6	-0.7	0.9	0.5	1.0	1.8

* Excluding import duties
p Provisional
pf Preliminary forecast.
Source: SAMA (1998:59).

The following years saw the growth rates of the economy flatten out. The average growth rate of the GDP between 1992 and 1994 was 0.83 percent (Table 3.20) and most sectors saw sluggish growth[19]. The low levels of growth were due to lower oil prices and government budget cuts. Although this was a period of no economic growth there have been achievements in the areas of the budget deficit and the balance of payments. 1995 was also a year of very little growth, Table 3.20 shows there was only 3 percent growth in the GDP. The NCB Economist (1996:1-2) noted that nominal GDP rose by about 4.3 percent but due to higher inflation (5 percent) the real growth in GDP for 1995 was flat. The reason put forward by the NCB Economist for the nominal growth in 1995 was due to increases in the oil prices, as a result the oil GDP was estimated to grow by 9 percent. Whilst the non-oil sector remained sluggish, the nominal growth rate of the private sector was reduced from 4 percent in 1994 to 2 percent in 1995, due to reduced government spending.

The higher oil prices and small increases in crude output from 1996 resulted in a modest but nevertheless a recovery in the GDP. The GDP grew by 1.4 percent in

[19] Wilson and Graham (1994:190) felt that the economic boom from the Gulf war continued unit the beginning of 1993. They put the continued growth down to steadily rising government expenditure and expansions of projects undertaken by ARAMCO, SABIC and the Saline Water Corporation (SWCC). Taeker (1996:44) also noted that between 1991 to early 1993 the economy surged due to internal wartime spending which boosted liquidity and stimulated new private investment.

1996 and 1.9 percent in 1997 (Table 3.20). The IMF (1998:8) noted that modest increase in GDP masks a substantial increase in national income as a result from the gains in the terms of trade. In 1997, all the sectors recorded improvements in the rate of growth. The NCB Economist (1997:2) noted that from 1996 there was an increase in the activities of the private sector, which was mainly due to higher oil prices, payments of arrears.

The low oil prices of 1998 and the beginning of 1999 and the subsequent fall in government spending produced a negative impact on the economy. Meed (26/3/99:12) cited the Ministry of Finance and National Economy as expecting the GDP at current prices to fall by 10.8 percent in 1998. Although the increased independence of the private sector can be seen by the King's speech to the Cabinet, in which the oil sector contracted by 34.8 percent, whilst the private sectors is expected to have a growth rate of 2.12 percent (Arab News, 29/12/1998:1). The increased oil prices in 1999 will mean improved growth rates for the GDP. Reuters (9 Sept. 1999) cited reports from SAMBA and Saudi British Bank as expecting real GDP to grow by 1 percent in 1999.

3.7.2.4. The Balance of Payments and Trade.

The deficit on the current account of the balance of payments also increased to US$-27 billion as a result of the Gulf war (Table 3.21a). Azzam (1993:185) noted that the trade surplus and a small decline in investment income (the main source of invisible receipts) could not prevent the large current account deficit. The main factors contributing to the increase in deficit (linked to the war) were the financing of the multinational military forces and other services, increases in transfers made by foreign workers and foreign aid disbursements. As can be seen from Table 3.22, domestic and foreign debt of the country increased during the early 1990s. Between 1989 and 1992 government debt had risen from 23 percent of GDP to 53 percent of GDP.

Table 3.21a: Balance of Payments, Current Account.
Millions of US Dollars
Minus signs indicates debit

	1990	1991	1992
Balance of Payments			
Goods: exports	44,414	47,744	47,180
Goods: imports	21,490	-25,968	-30,248
Trade Balance	22,924	21,776	16,932
Services: credit	3,031	2,908	3,346
Services: debit	-22,414	-38,804	-31,782
Balance on goods & services	3,541	-14,120	-11,504
Income: credit	9,199	8,700	7,378
Income: debit	-1,220	-1,933	-1,944
Balance on goods & serv., & inc.	11,519	-7,354	-6,069
Current transfers: credit	-	-	-
Current transfers: debit	-15,637	-20,235	-14,898
Current Account	-4,117	-27,589	-20,967

Source: IMF International Financial Statistical Yearbook 1995:160-1.

Table 3.21b: Balance of Payments, Current Account.
Billions of US Dollars
Minus signs indicates debit

	1993	1994	1995	1996	Prel. 1997
Merchandise Trade (f.o.b.)	16.4	21.2	24.3	31.2	33.3
Exports	42.3	42.5	49.9	56.6	58.4
Oil exports	38.5	38	43.4	50.1	51.4
Other exports	3.8	4.5	6.5	6.5	7
Imports	-25.9	-21.3	-25.7	-25.4	-25.1
Services and transfers	-33.7	-31.7	-29.6	-31	-33
Receipts	9.6	7.5	8.6	9.2	10.4
Payments	-43.3	-39.2	-38.2	-40.2	-43.5
Current account balance	-17.3	-10.5	-5.3	0.2	0.2
(In Percent of GDP)	-14.6	-8.7	-4.2	0.2	0.2

Source: Saudi Arabian Monetary Agency (cited in IMF, 1998:62)

Table 3.22: The Government's Domestic and Foreign Debt.
(SR '000 millions).

	1989	1990-91	1992	1993
Net outstanding Domestic debt	71	195	237	283
% of GDP	23	24	53	63
Net outstanding Stock of official And guaranteed Foreign debt	-	4.5	4.5	4.5
% of GDP	-	2	4	4

Source: IMF Article IV report 1994
(Cited in Meed, 10/3/95:28)

The balance of payments also saw improvements in the deficit in the current account between 1992 and 1995 (3.21a & 3.21b). Saudi Economic Survey (14/5/1997:13) noted that in 1994 the financing requirement declined by 52.2 percent as compared with the preceding year. The reasons for the marked improvement include a rise in the trade surplus (from 1994 both oil and non-oil exports began to increase)[20]. IMF (1998:35) and Saudi Economic Survey (14/5/1997:18) noted that petrochemical exports and non-traditional manufactured exports (foodstuff, beverages, textiles, cement, machinery wood products and metal products) both increased by 50 percent during this period (this is indicated in Table 3.23). In addition, between 1992 and 1995 there was a fall in imports, mostly as a result of the government cutbacks and slowdown in economic growth. IMF (1998:63) also contributed the improvement in the current account to reduced government service payments, as a result of government cutbacks. There has also been a reduction in private service outflows, especially travel abroad.

[20] Meed (23/6/95) also noted that level of oil production increased. Also in 1994 non-oil exports continued to grow. This was mainly due to the increase in the price of petrochemicals, in 1994 SABIC increased profits to over US$1,000 million (Meed (3/11/95:34). This was 35 percent higher than the previous year.

Table 3.23: Non-oil Exports.
(Percentage change in volume).

	1993	1994	1995	1996	1997
Total non-oil exports	6.4	15.0	31.5	2.7	18.9
Of which:					
Petrochemicals	4.5	30.7	26.1	-2.8	26.6
Manufacturing	6.0	2.2	28.6	35.9	-
Agriculture	9.4	-20.8	10.9	-31.1	-
Other	0.6	-15.4	70.6	9.2	-
Share in total export (in percent)	8.9	10.5	13.3	11.4	11.9

Source Central Department for Statistics; and Fund staff estimates (cited in IMF, 1998b:14)

The increased oil prices also had a positive affect on the balance of payments, in 1996 the current account moved into a surplus of 0.2 percent of the GDP (Table 3.21b). This was due to an increase in global oil prices and a stagnation of imports. Petrochemical exports were depressed due to lower international prices, which caused a slowdown in non-oil exports. The net services and transfers also declined in 1996 (NCB Economist, 1997:5). 1997 was the second year in which the current account was in surplus in the current account. The IMF (1998:67) noted this was due to higher oil receipts (there was a small decline in oil prices but this was made up by an increase in export volume). There was an increase in non-oil exports due to export of petrochemical products – there was an increase in price as well as in volume. There was the continued stagnation of imports due to the drop in the price of imports due to the appreciation of the US dollar and the softening in price of imports from East Asia. The IMF Report further added that the rise in the trade surplus more than offset the slight increase in services and transfers deficit, which was a result of increased private outflows (due to the settlement of the government late payments) and an increase in foreign travel. The overall balance of payments moved into a surplus in 1996 and 1997 (there was a deficit in between 1993 and 1995). As a result of the economic problems in 1998 the current account deficit is expected to equal 8.3 percent of the GDP[21].

[21] Meed (26/3/99:12) also noted that the deficit of the current account is expected to be US$14,000 million, which is just under 11 percent of the GDP – this will be the highest since 1993.

In conclusion, the 1990s so far have seen varying conditions in Saudi Arabia. At the beginning of the decade the Gulf crisis caused a boom in the economy, but worsened the balance of payments deficit and the current account deficit. This was followed by a period of very low growth levels resulting from low oil prices and lower levels of government expenditure. The lower levels of government expenditure although affecting growth rates had positive benefits on the budget deficit and the current account saw an improved situation due to reduced imports. Increases in the price of oil in 1996 meant that government expenditure could be increased and much of the governments backlog of arrears could be paid. This caused high growth rates in the private sector and the economy as a whole. The increase in revenue also saw a marked improvement in the budget and the current account moved into a surplus after 13 years of deficit. With the fall in oil prices in 1998 the Saudi Arabian economy was pushed into a recession, with disastrous effects on growth, the budget and current account deficits. The increase in the oil price in 1999 has improved the prospects of the economy.

3.8. CONCLUSION.

The Oil price has very much influenced whom the government wishes to be the main agent for economic growth and diversification. The increase in oil prices from the early 1970s, which accrued directly to the government, meant that the it was central to the development process through direct government projects, through the planning process, and through government spending. The fall in oil prices in the 1980s (and the subsequent economic problems faced by the economy) prompted the government to encourage the private sector to play a greater role in the economy, as can be seen by the Fourth Development Plan. The government expressed a view that it would encourage the private sector by providing a conducive environment. Thus it is important to look at the changes in the economy to understand the changing role the private sector is expected to play within the economy.

This chapter has shown that oil revenues and government spending have been central to the health of the Saudi economy despite the government's efforts to diversify the economy. As noted by the EIU (1996-7:13) since the end of the Gulf

War in 1991 petroleum has contributed to just under 40 percent of nominal GDP, 75 percent of the budget and a little more than 90 percent of export receipts. Even in the Sixth Development Plan, the authorities acknowledge that oil remains of overwhelming importance for the future. The growth rates of the economy and the private sector are still dependent on oil revenues and government expenditures. The downturn in the economy in 1998 and early 1999 illustrates the continued vulnerability of the Saudi economy to changes in the oil market conditions.

Despite these facts there have been improvements in the economy - there is evidence that the private sector is gaining independence from government spending (see chapter 4), and the commitment of the government to reach fiscal balance has meant the reduction of the budget deficit. Since 1992 many of the agricultural subsides have been reduced and domestic prices for water, electricity and gasoline have gone up. As the NCB Economist (1997:12) noted, the continued high oil prices will not solve the fundamental challenges the country faces, i.e. cutting overspending, increasing private sector participation, increasing the productivity of the public sector, and reducing unemployment. Gains in independence of the private sector, the reduction in subsides, and other issues related to the it are discussed in following chapter, which outlines the development and growth of the private sector.

Chapter Four

A Background to the Nature and Development of The Saudi Arabian Private Sector

4.1. INTRODUCTION.

The Saudi Arabian government has always been the main agent for the growth and development of the Saudi economy. This has been achieved through its objectives and through expenditure. It has always supported the private sector through its Development Plans and has realised the importance of the development of private sector diversification of the economy. Despite the aims of the government to diversify the economy, Saudi Arabia still exhibits many of the characteristics of a single resource-based economy - within the five year period ending in 1993, the oil sector still contributed 75 percent of government revenue (NCB, Mar 1994:1). To reduce the impact of fluctuations in world oil prices on the domestic economy, and to maintain healthy economic conditions at a time when government expenditures are being rationalised, the private sector is called upon to spearhead the process of economic development. The last three Development Plans have been a departure from previous plans as they attempt to reorient the Saudi economy from growth based on the public sector to one where the private sector takes the lead. The aim of this chapter is to outline the main development and the characteristics of the private sector, the main areas of activity and the main reasons for its growth.

The 'private sector' encompasses all economic activity that is not performed by the government or government owned companies[1]. This includes all private firms whether formal or informal, in the industrial, agricultural and service sectors, as well

[1] A similar definition was presented by the World Bank (1989:1) – "The private sector is usually defined as the collection of enterprises that are owned by individuals or groups not representing the state, where the public sector comprises government agencies and state owned enterprises. In practice, however, the dividing line between the public and the private sector is always blurred, especially since ownership and control of the state may vary in degree and over time. Furthermore, countries differ in their legal or customary definitions of what is private and what is public."

as non-profit organisations such as the Chambers of Commerce and co-operative societies, insofar as those groups are engaged in economic activity (Ministry of Planning, 1990:135). In the case of Saudi Arabia, the identification of the private sector is not as straightforward as in other countries (Presley (1984:27-28) and Montagu (1994: 61)). This is mainly due to two important features:

- The operation of a great number of private foreign-owned and controlled companies working in the country. This includes the majority of joint venture agreements with domestic companies; and
- By the partial involvement of the government in many industries and the sale of certain government assets, makes the division between the public and private sectors difficult to define.

An example is the case of The Saudi Arabian Basic Industries Corporation (SABIC) which was set up to spearhead base chemical production. SABIC began as wholly government owned; though the first joint ventures were mainly 50percent government and 50percent foreign; and then 30percent of SABIC was sold to Saudi and Gulf investors. As a result the majority of the equity in Saudi Arabia's chemicals industry is in fact owned by the private sector. Despite this, SABIC is frequently perceived as a government entity as the Minister of Industry and Electricity chairs it[2].

The Sixth Development Plan (Ministry of Planning, 1995:146) gave further examples of mixed private and public companies, where the private sector ownership varies from 30 percent, in the case of SABIC, to 99 percent of the Saudi Cement Company. Below are some examples:

- Saudi Ceramic Company;
- Cement companies – Saudi, Yamama, Qassim, Yanbu, Southern region and Eastern region;
- Some commercial banks – Riyadh Bank, Saudi Investment Bank, Saudi Cairo Bank;

[2] Two of the interviewees (F and P) stated that SABIC functions as a government organisation. Interviewee F added that only two members of the SABIC board come from the private sector. For more examples see Presley (1984:28).

- SAPTCO, Sea Transport Company;
- Some agricultural companies: NADEC, Tabuk Agricultural Co., Al-Jouf Agricultural Co.

4.2. DEFINING THE PRIVATE SECTOR IN SAUDI ARABIA.

It is important to establish a definition before discussing the private sector and the role it is expected to play within Saudi Arabia. Large merchant houses dominate the private sector in Saudi Arabia (Fields, 1985:7). Hess (1995:104) defined the private sector in the Gulf as follows:

> "The private sector, like the rest of Gulf society, is based on kinship relations. Indeed, the great private sector firms are still largely run by extended families: the al-Ghanim in Kuwait, the al-Muayyid in Bahrain and the Olayan in Saudi Arabia, for example. The private sector is also characterised as a small and highly educated elite that is mostly urban and has an increasingly cosmopolitan view of the world. As in the case of the west, the phrase describes those individuals, companies and organisations who compete with each other and foreign institutions on the basis of free market principals in the non-governmental sector of the economy. However, the fairly recent arrival of capitalism in and its associated technologies in the Gulf has resulted in the State defining the private sector to exclude small-scale, non-modern businesses establishments whose economic activities do not contribute to the state's modernisation programme."

The table below (Azzam, 1993:158-161) outlines some of the leading merchant families. Azzam (1993:161) noted that very few Saudi companies publish accounts or up to date lists of agencies, therefore it is advisable to check with the specific company to ascertain the present activities and agencies in detail.

Table 4.1: Leading Merchant Families and Wholesale Trading Houses in Saudi Arabia.

Name of Family	***Major companies, Establishments, affiliates and Subsidiaries***	***Selected agencies and activities***
Alireza	Haji Husein Alireza and Co. Ltd; Kitchen World; Transcontinental Corporation; Rezatrade Marketing and Development; Husein Jamiland Rezatrade; NEC Saudi Arabia Ltd; Wexico Systems and Services; Xenel Industries Ltd; Dakhakhni Bookshops; Saudi Electronics and Trading Co; Rezayat Trading Co; ICI Trading and Razatrade.	Mazda; Goodyear; Gerber; Lister; Arby's ICIT Pools; NEC; Westinghouse; Havana Cigars; Ford; Mercury; Kia; Rolm; Fujitsu. Activities cover the entire range of commercial sectors in the Kingdom.
Binzagr	Binzagr Co; Wahib S. Binzagr & Brothers; Arabian Stores Co; International Agencies Ltd; Binzagr International Trading Co.	Avon Products Inc; Advanced Linen Services; Unilever Exports; British American Tobacco; Brown and Williamson International Tobacco; Imperial Tobacco; Lipton Exports, HJ Heinz; Kelloggs; UB (Biscuits) Uncle Ben's; Royal Foods; Hershey International, Dr Pepper Co; Wilkinson Sword; Dunlop; General Tire.
Buqshan	Abdullah Said Buqshan & Bros; Buqshan Trading Co; Saudi Bazaar; Buqshan Pharmacy; Ahmad Sulaiman Buqshan and Co; Ali Abdullah Buqshan Showroom; Salim Ahmad Buqshan.	Perfumes: Christian Dior, Georgio, Clarins, Muko, Kent; also clothing; jewellery; automobiles and spare parts; books; furniture; carpets; processed foods; shoes; household appliances; and electrical goods. One of the largest commercial companies in the Kingdom, but like to keep a low profile.
Algosaibi	Abdulrehman Algosaibi General Trading Bureau; Ahmad Hamad; Algosaibi & Bros; Algosaibi Grandmet Services Ltd; Algosaibi Hotels; Algosaibi Trading & Contracting Co; Khalifa A. Algosaibi Group of Companies.	Mitsui; White Westinghouse International Co; Sumitomo; Fiat; RC Cola; and a range of other from the US, UK, Germany, France, Italy, Belgium, Switzerland, Austria, Denmark, Sweden, Spain, Pakistan, Jordan and Japan.

Jamjoom	Jamjoom Group of Industries; Jamjoom Vehicles and Equipment; Chemtech Industries; Jamjoom General Agencies; Dar al-Shorouq Publications, Distributing and Printing; Yahya Jamjoom Establishment; Delicatessen Hanaa, Al Madina; Modern Commercial Establishment; Modern Vehicle and Equipment; Saudi Marketing Establishment; Radwa Trading Co; Al-Sharafiah Hotel, Trading and Construction World, Jamjoom Corporation for Commerce and Industry; Jamjoon Foremost Ltd.	Widely diversified international range that has included Pfizer; Ceiba-Geigy; Peugeot; Hino trucks; Kleber Tyres; Continental Pharma; Sans Souci; and Allercan.
Juffali	The Juffali Group of Companies; National Electric & Products Co; Saudi Business Machines; EA Juffali & Bros.	Daimler-Benz; IBM; Kelvinator; Michelin; Siemens, Sulzer, York; Bosch. One of the oldest and most respected holding companies in the Kingdom and also includes a number of large manufacturing concerns.
Kaki	Ahmad and Mohammed Saleh Kaki Group of Companies; Al Kaki Co; General Establishment for Trade and Contracts; Jeddah Kaki Hotel; National Printing Press.	Concentrating on: industry; contracting; banking; real estate; and technical service; but buys in bulk for projects. Also runs large hotel and restaurant operations, including management services.
Kanoo	Yusuf B Ahmad Kanoo; cable and Wireless Saudi Arabia.	Esso; Exxon; BASF. It has many branches and affiliates throughout the Gulf region.
Olayan	Arabian Automotive Co; general Trading Company; Olayan Saudi Holding Company; Olayan Saudi General Transportation Co.	Jaguar; Rover; Land Rover; General Foods; Kimberly-Clark; Rowntree Mackintosh; Chesbrough Ponds; Unigate; Tulip; Jacob Suchard; Tuborg; Lowenbrau; Borden; Waitaki; Campbells; Pillsbury; Overseas Trading (Lyons Tea); Beechnut; National Cheese; National Cheese; Societe des Eaux Minerales (Sohat); Colgate Palmolive; Holland Canned Milk, Imperial Tobacco. Also huge international banking and finance interests, plus many local industries and joint ventures.
Pharaon	Saudi Research and Development Corporation; Redec Intertrade Arinco; Saudi Food Suppliers & Supermarkets; Saudi Computer Services Co; Intermec; Arabian Homes.	Texas Instruments; Memorex; plus interests in BSN Gervais Danone; Industrie Buitoni Perugina; Montedison; Rosenthal Studio Line. Also large banking and financial interests in the US, local contracting and industrial trading.

Al Quraishi	Ali Zaid Al Quraishi & Bros; Saleh Zaid Al Quraishi Establishment for Trading and Contracting; Al Quraishi Distribution Services; Al Quraishi Leisure Services; Al Quraishi Furniture; Al Sabah Trading.	Samsonite; Canon; Sheaffer; AMF Bowling; Westinghouse; Reckitt & Colman; Tobacco Exporters International; Citizen; Swatch; Fabre-Leuba; Cussons; Fisher-Price; Mattel; Lego.
Shaker	Ibrahim Shaker Co Ltd; Shaker Trading Co.	General Electric; Electrolux.
Sharbatly	Saudi Arabian Marketing Corporation; Sharbatly Establishment for Trade and Development.	Importers and distributors of: foodstuffs; furniture; leisure and sporting goods; educational materials; paints and toys.
Shobokshi	Ali and Fahd Shobokshi Group; Al Arousa Furniture Factory, Orient International Agencies; Oriental Company for Trading & Marketing; Shobest Automotive Trading; Shobak Catering Group; Tihama Advertising; Shobokshi Commercial Enterprises; Public Relations and Marketing; General Agencies Corp; Alphatrans.	Thorn Lighting; Klein Philips BV; MAN; Magirus. The family founded the Arabic daily, *Okaz* and the English language *Saudi Gazette.*
Sudairi	Arabian Food Supplies.	Mars; Hero; Wellcome International; First Brands; Wrigleys; Green Giant; Ross; Pedigree Petfoods; Tate & Lyle.
Tamimi	Tamimi & Fouad; Tamimi & Fouad Foods Co Ltd.	Owns huge supermarkets in Riyadh, Dammam and Al Khobar. Originally set up with Safeway Stores of the US but now independently run. Imports, stores, and distributes; foodstuffs; cosmetics; toiletries; and household goods.
Zahid	Zahid Motors & Importers Co Ltd; Zahid Tractors & Heavy Machinery Co Ltd; Zahid Enterprises Co Ltd.	Renault; Volvo; Caterpillar; Mannesman Demag; Pirelli Tyres. Has also represented General Motors, Pignon and GMODC (Isuzu). Imports and sells: clothing; dairy foods; paints; and car care products.

Source: Azzam (1993:158-161).

Okruhlik (1992:146-151) further categorised the private sector on the following five criteria. Most government investment incentives are directed at the first two groups as they have abundant capital available for projects (Okruhlik,1992:148).

1. Well established family with relations to the Al-Saud. This include families who were well established before the boom and therefore had a head start. Despite the fact that these families pre-dated the formation of Saudi Arabia, they forged good relations with the ruling family, which they benefited from. Okruhlik (1992:147) quoted Dietl (p152)[3] in saying:

> "The Juffali, Bin Laden, Ali Reza and Pharaon are the leading entrepreneurs with nation-wide network of project-contracts, international collaborations and exclusive agencies for international manufacturers. Each one of them has his own linkages to the source of power and masters a nimble foot-working to chalk out his own route to it through the ever shifting alliances of lesser princes."

Business International (1985:181-183) noted that there are a number of ways to win contracts and gaining favour. In the 1930's and 1940's this might have included the most direct way of going to the King and asking or the merchant going via one of the King's many majlis. Some examples of this include Mohammed bin Laden[4], Salim bin Mahfouz (who established the National Commercial Bank) and Ahmed Juffali, who was given a concession for Taif's electricity supply. Another way to gain favour was by serving the government. For example, the Algosaibis represented the King in Bahrain, acting as purchasing agents in Bombay and carrying out a financial mission to Europe; Haji Abdullah (a member of the Alireza family) served the Jeddah government until his death in 1932 and his sons and nephews were given diplomatic tasks. These approaches to winning contracts became weaker with the oil boom and the development of professional civil servants,

2. The recently wealthy and their associated behaviour. These are families who have made their fortune quickly out of the boom, often in a non-productive manner (such as Khasshogi)[5]. These families are seen as nouveau riche due to

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[3] A date was not given.
[4] See Fields (1984:105-6) for more detail.
[5] Although Okruhlik (1992:148) noted that many Saudi obtained their wealth with from the oil boom and this alone does not make them nouveau riche. Indeed, Metwally and Abdal-Rahman's (1996:170-1) analysis of the information published by the Arab News on the 100 largest companies and business enterprises indicated that the majority of Saudi enterprises were established after 1973. This accounts for approximately 85 percent of banks, 29 percent of trading enterprises, 67 percent of

their indiscreet behaviour and the flaunting of their wealth. In many cases the necessary management systems were not developed to secure the continual growth of their businesses, and many collapsed during the recession.

3. Families whose reputations are not necessarily based on the Al-Saud. These are families who are historically active in business and have benefited from the distributive programs of the state but not from favours of princes. The sizes of their businesses vary greatly in size.

4. The places of origin of the families. For example, families from the Hadramawt who are concentrated in the Hijaz area and are very successful in businesses. Some of the important families from this area are Baeshen, Bin Zagr, Bin Mahfouz, Bugshan and Bin Laden[6]. Field (1985:73) gave the example of the Qassim region (especially the towns of Onaizah and Buraidah), from which a number of Nejdi merchant families originate. These families include the Juffalies, Olayans, The Rajhi Brother and Ali Tamimi.

5. Private businessmen linked to the oil industry. These were individuals who were employed by ARAMCO or were small ARAMCO suppliers. They took advantage of ARAMCO incentives to invest in private businesses and then grew with the boom. This group includes Sulaiman Olayan, Khalid Al-Turki, and Ali Tamimi.

Because of the changes in the economy of Saudi Arabia due to the oil boom, there were changes in the regional importance of the private sector. The Nejdi private sector grew in importance compared to the old commercial elite of the Hijaz (Chaudhry, 1997:90-9,159-162). The increased economic activity during the 1960s and the resulting increase in state projects was directed mainly at a small number of well-established Hijazi merchant houses. This was due partly to the fact that this group had the expertise needed to carry out the projects. However, it also resulted from the strong ties between individual Hijazi merchants and King Faisal, who had

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contracting firms, 70 percent of manufacturing enterprises, 86 percent of utilities and 50 percent of diversified enterprises.

previously served as the governor of the Hijaz. There were also high levels of interaction between the important merchants and the government. At this time the commercial class was narrower (with the shrinking of the commercial middle class) than it had been between the 1930-1950s but the activities of the elite were more diversified.

During the oil boom of the 1970s, the private sector in all areas grew but the most remarkable growth was seen by the private sector in the Nejd. Using membership in chambers of commerce (which does not include retailers and wholesalers) Chaudhry (1997:159) concluded that the Nejdi business class increased ninety-five-fold between 1962 and 1985. Consequently, many of the Hijazi merchants either concentrated on retail or foreign investments; even holdings and activities of families such as the Ali Reza's shrank in the boom period. Fields (1985:40) illustrates this point:

> "The assassination of King Faisal by a mentally deranged nephew in March 1975 was of great personal and political blow for the Alirezas. ...King Khaled and the brothers that were the closest to him were much more oriented towards the Nejd, whose people had always been their family's principal constituent. ...It was noticeable in the later 1970s that Laing Wimpey Alireza went through a very quiet period, during which it won contracts for only one big project – the Abha airport in the south-western corner of the kingdom."

Chaudhry (1997:94,161) noted that one of the important factors in this process was the growth and centralisation of the bureaucracy during the 1970s and the dominance of Nejdis within the bureaucracy[7]. Consequently, the growth of the Nejdi business class and the regional inequality grew out of the government's distributive policies. These included subsidies, loans, grants, exclusive agencies, contracting, sponsorship rules and government purchasing as well as confidential information about upcoming government tenders and projects. This process is summarised by Chaudhry's (1997:161) following quote:

[6] Field (1985:75) mentioned that the names of many of the Hadhrami families begin with 'Ba' or 'Bin'.
[7] The interviews carried out by Chaudhry (1997:160) noted another dimension of the decline of the Hijazi elite. He suggested it was a result of the hesitation of the old merchant classes to expand into construction and services areas partly because of their specialisation in trade.

> "These mechanisms transformed the composition of the business community in the 1970s and recast the business-government relations from the consultative model of the 1960s into kinship-based partnerships between the state-created business class and the bureaucracy. By the mid-1980s this largely Nejdi group has displaced the old merchant class of the apex of the business community."

The royal family also plays a major part in business (Carter, 1984:16-17; Field, 1985:102). Princes are major investors in Saudi industrial and services companies and represent foreign companies when bidding for government contracts, which Field (1985:102) noted earned them enormous commissions in the 1970s. Field further added that in 1980 and 1981 a few princes made huge sums of money from getting entitlements to state oil, which they were able to sell on the open market. Carter (1984:17) mentioned some of the princes who play a major role in commerce and business. He started with HRH Prince Abdullah bin Faisal, whom he called the 'doyen' of royal businessmen (who has always been more interested in business and never participated greatly in purely in government activities). Other princes noted include: HRH Khalid Saud Muhammed, HRH Khalid Turki Abdalaziz, Al Turki, HRH Muhammad Fahd Abdalaziz, HRH Nawwaf Abdalaziz and HRH Salman Abdalaziz.

More recently, Prince Alwaleed Bin Talal highlights the important role some members of the royal family play in the economy. The 1998 supplement of the 'Top 100 Companies Report' ranked the Kingdom Holding Company (around which the Prince's business empire is based) as second in the category of Turnover/Sales (1998:iv). The first in this category was SABIC. In the category of assets, the Kingdom Holding Company was ranked the fourth highest. Prince Alwaleed's success, like many other businessmen can by traced back to the oil boom from the late 1970s and early 1980s (Meed, 4/8/1995:2). Kingdom Establishment started in 1978 as a construction firm, working on several civilian and military projects. In 1988, he moved into banking by gaining control of United Saudi Commercial Bank. Other acquisitions include the largest local supermarket chain, a livestock company, the National Industrialisation Company, which Meed (4/8/1995:2) claimed put the prince in charge of some 40 industrial companies. Prince Alwaleed Bin Talal also boasts substantial international holdings[8], which include:

Table 4.2: International Assets (as a percentage) of Prince Alwaleed Bin Talal.

Citibank	9.1
Four Seasons Hotels & Resorts	25
Disneyland Paris	25
Saks Fifth Avenue	6
George V Hotel, Paris	100
Ballast Nedam Groep	3
Mediaset	3
Canary Wharf	10
TWA	5
Norwegian Cruise Lines	5
Apple Computers	5
Planet Hollywood	4
Cordiant	6
Donna Karan International	7
Moevenpick Hotels & Resorts	30
Daewoo Corporation	6
Hyundai Motor Company	7
Proton	3
News Corporation	5
Netscape	5
Motorola	1
Hotel Properties, Singapore	3
Teledisc	16

Source: Kingdom Holding company, Arthur Andersen (cited in Meed (5/5/1998:5)).

Appendix 2 gives some more examples of royal family involvement in the economy.

[8] Bin Mahfouz, Olayan and Bugshan are amongst other families with substantial international investments Meed (4/8/95:2)

4.3. THE ROLE OF THE PRIVATE SECTOR IN THE ECONOMY.

4.3.1. THE EXPANDING ROLE OF THE PRIVATE SECTOR IN THE DEVELOPMENT PLANS.

The expanding role the government wishes the private sector to play can be reflected in the six Development Plans. Whilst all the Development Plans have aimed at encouraging the private sector, in the first three the government played the leading role in the economy (due to the expansion of the oil revenues). This can be illustrated by the following quote from the Third Development Plan (1980:30-1):

> "A distinguishing feature of the Kingdom's economy is the high degree of financial independence. The oil revenues, which accrue directly to the Government, dispense with the need to levy taxes on other sectors in order to finance current and capital expenditure. Simultaneously, they provide the necessary foreign investment to finance these investments. Since the development process begins with the conversion of oil revenues into domestic assets, and given the Government administers each stage of this process, economic development is largely a government activity. This applies not only to financing and administration of the development projects, but also to the conceptual and organisational phase of planning. Development is a public sector responsibility also in the sense that the ownership and the operation of most of the newly created assets continue to be controlled by the central or local government."

According to the Sixth Development Plan (1995:43), the active role played by the private sector during the first three Development Plans was in construction, operation and maintenance of infrastructure. These were funded by government expenditure programs and managed by government agencies (Ministry of Planning, 1980:32).

These plans aimed to stimulate and assist private sector activities in a number of ways. These included increasing the labour force (either by increasing foreign labour or encouraging migration from rural areas), financial stimulation to encourage the productive sectors and encouraging international co-operation agreements to acquire access to technical and managerial expertise (Ministry of Planning, 1980:13).

The Fourth Development Plan (1985–1990) saw a greater role for the private sector. In a change from previous plans, economic diversification was amongst key goals and objectives. This was to be carried out by the private sector. The government created an environment that was conducive for the private sector, encouraging it through financial measures and through encouraging joint ventures with foreign firms. The private sector was also seen to have grown in maturity and resilience due to its ability to stand up to the declining oil revenues and the subsequent fall in government expenditure (Ministry of Planning, 1995:43). The importance of the private sector intensified from the Fourth Development Plan. This can be illustrated from the following quote from the Fifth Development Plan (1990:140-141):

> "This stage of infrastructural development in the Kingdom is largely ended, and with the emergence of a new phase both the government and the private sector are adopting new roles. The need for economic diversification and greater mobilisation of private capital will require the private sector to assume a more leading role for future development. The principal driving sectors of the economy in the Fifth Plan – manufacturing, finance, construction and agriculture – are all firmly in the private domain. To facilitate a stronger and more diversified private sector, the government will create a positive environment for private sector activity, implement a wide range of policies and incentives to support the private sector, and establish new institutions to further private sector interests."

The Fifth Development Plan (1990:140-141) identified four principal contributions expected of the private sector for long term development of the economy – diversifying the economy; providing employment for the Saudi Labour force; deploying private capital in the economy and strengthening the adaptive capacity of the economy. The Plan also stressed the importance for the private sector to move into areas where the government had traditionally been the main provider of services and utilities.

The Sixth Plan (1995:46-7) continues to enhance and broaden the main objectives of the previous Development Plans, which called for the private sector to provide jobs for Saudi nationals, to diversify the economy and to lessen its dependence on oil revenues. Emphasis is placed on the private sector to play a greater role in financing, building and operating key facilities in the fields of basic infrastructure, economic and social services, thereby reducing the financial burden of the government.

The Development Plans illustrate the growing importance of the private sector's role in the economy. The Plans also indicate an increase in the strength and capability of the private sector as it is seen as the main agent of growth and diversification in the economy. The last two Development Plans have emphasised that the private sector should move into areas that were previously dominated by the government. The principal method for this would be through privatisation.

4.3.2. GOVERNMENT APPROACHES TO IMPROVE THE ROLE OF THE PRIVATE SECTOR AND TO LIBERALISE THE ECONOMY.

Along with the increasing capabilities of the private sector, the move towards private sector development also reflects the harder economic times faced by the government due to the fall in oil prices. These factors have led the government to adopt policies to promote the private sector as well as to liberalise the economy. Business International (1985:181) argued that this is causing a change in the relationship between the private sector and the government:

> "Businessmen have looked to their rulers for wealth and favours, in the form of contracts, land and concessions, and the government has been happy to enrich the business as part of its general policy to spread its oil revenue in society.
>
> Now the Arabian relationship is changing to something more like Western pattern, the government for the first time is starting to make demands on the private sector, and the businessmen are starting to make counter-demands."

The stress placed on liberalising the economy can be illustrated from a speech made by Crown Prince Abdullah when he talked about the end of the boom days of easy oil money, he stated[9]:

[9] Reuters (19/1/99:1); Arab News Top 100 Saudi Companies (21/12/1998:1) and Saudi Economic Bulletin (1999:5) all wrote about Crown Prince Abdullah's speech. The quotes are from these sources.

> "We must all get used to a different way of life, which does not stand on total dependence on the state."

The Crown Prince further added the importance of the private sector employing more Saudis:

> "The private sector has to reduce its dependence upon non-nationals within the context of a practical and well-studied programme."

In addition, Taecker (1999:13) argued that the basic message of the 1999 budget is very clear:

> "The economic role of Saudi Arabia's government is shrinking, and the private sector – which by outward measures still appears healthy – must become stronger in order to take over the leading role as the nation's engine for future economic growth."

This section aims to look at the way the government wants the role of the private sector to be increased and forms of economic liberalisation.

4.3.2.1. Privatisation.

The Fifth and Sixth Development Plans see Privatisation as a way to increase the role of the private sector, allowing it to get involved in sectors previously dominated by the government. In addition it is expected that the private sector will play an expanding role in financing, building and operating key fields of basic infrastructure, as well as economic and social services – thereby reducing the financial burden of the government (Ministry of Planning, 1995:47). The Sixth Development Plans visualises three types of Privatisation mechanism:

1. Build, operate and transfer (BOT) schemes:
2. Equity participation by the private sector in a subsidiaries of public companies, such as downstream petrochemical industries; and
3. The transfer of ownership from the public to the private sector.

The IMF (1998:6) noted that progress had been made in defining the legal framework for Privatisation and the implementation steps. A decree was approved laying out the Privatisation strategy and a ministerial committee was established to carry out the Privatisation operation. The Public Investment Fund (PIF), the government investment arm, was entrusted with the task of preparing case studies for Privatisation, undertaking the evaluation of assets and the formulation of restructuring programmes. Entities that are being considered for future Privatisation (such as SAUDIA and Ma'aden, the government-owned non-oil mining company) are expected to be restructured and run on a more commercial basis.

Until recently moves towards Privatisation have been slow. The first steps are illustrated below:

- SABIC.

Thirty percent of SABIC is already owned by the private sector. The first stages of Privatisation for Ibn Rushd (an artificial fibre and polyester plant affiliate of SABIC) began with its conversion to a Saudi-joint stock company (Saudi Gazette[10], 1/6/1995:2). The second stage will be the sale of company shares to the public. SABIC was high on the list for additional shares to be sold to the private sector and for the government to reduce its share to 25 percent. As noted in the Fourth Development Plan (Ministry of Planning, 1985:109):

"During the Fourth Plan the government will continue with its programme of transferring ownership of government corporations to the private sector. A further issue of SABIC shares has already been announced and the government is giving careful consideration to the timing and proportion of its shares that could be offered in other government corporations."

A recent report in the Arab News (11/5/99:2) suggests that the government still plans to sell shares in SABIC but not in the near future. The paper quoted Abdul-Wahab Attar (The Minister of Planning) as saying that there is no plan to sell the shares of the government in SABIC due to the stagnancy currently faced by the local stock market. The article went on to say that the low crude oil and petrochemical prices coupled with an economic slowdown in Asia, SABIC's main market, has had a strong negative impact on the company

- Management of the Saudi Port Authority.

In 1997 the operations and management of the Saudi Port Authority was turned over to private management. Meed (5/12/1999:5) reported that as a result of the reform the ports are showing a better performance. Jeddah Islamic Port has seen an increase in the volume of goods handled, which in the first year of private sector management increased by 11 percent. Local authorities have also begun to contract out the operation of their facilities in order to contain costs (Meed, 27/11/1998:22). For example, Jeddah municipality contracted out the management of its wholesale fruit and vegetable market.

Since 1998 the move towards Privatisation has speeded up. On 20th April 1998 the Council of Ministers approved the decision to set up the Saudi Telecommunications Company (STC) to take over the running of the Saudi telephone and telegraph system within six months (SAMA, 1998:65). The Financial Times (8/5/1998:7) noted that this was the second stage towards Privatisation. The first stage started in December 1997, "with the cabinet's decision to hive off all the operations of the Post & Telecommunications ministry, leaving only its regulatory role and partly-subsidised postal services." The government has also announced plans to unify the 10 regional electricity company (the Scecos which have been making heavy losses for many years) into the Saudi Electricity Company (SEC) as a first steps towards privatising the sector. This restructuring is aimed at meeting increasing electricity demands as well as increasing the role of the private sector. It has witnessed changes in the tariff structure in order to reduce the losses of the company. The low and moderate rates remain the same, whilst the rates have increased in the higher bands to encourage conservation and raise revenues (Arab News, 1/12/88:1-2).

Thus, the first moves have been made in increase the role of the private sector in the area of power and telecommunication. Saudi Arabia's first attempt for private sector

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[10] The Saudi Gazette was quoting Ibrahim Bin Abdullah bin Salamah, the Vice-President and

financing of the power sector (at the Shuaiba plant on a build-own-operate (BOO) basis) was unsuccessful. Meed (27/11/1998:28) noted that while there was strong pressure at government level for constructing the plant on a BOO basis, industry analysts say that the Saudi Consolidated Electricity Company for the Western Region (EWR) feared a diminution of is authority and sought to impede its implementation.

4.3.2.2. Reduced Subsidies.

The government has granted a number of subsidies. These include subsidies for food and animal feed, production subsidies for wheat and barley, agricultural inputs subsidies, electricity subsidies as well as social relief payments. These subsidies were introduced to encourage the development of industry and agriculture. One of the aims of the Sixth Development Plan (Ministry of Planning, 1995:109) is to reduce direct and indirect subsidies in order to increase the self-reliance of the subsidised sector. Since 1994 there have been significant declines in subsidies (IMF, 1998:39). The IMF noted that between 1981/2 – 1993 subsidies and transfers accounted for 2.9 percent of GDP (with much lower levels in 1988-89). Whilst the average between 1994-97 amounted to 1.2 percent of GDP, Meed (15/1/99:2) cited that economists were surprised and dissatisfied that the last budget to reduce costs or to increase revenues. Meed went on to say that in 1998 modest measures were introduced including increases in the first and business class airfares on domestic routes, the introduction of departure tax on international travel and restructuring of the electricity tariffs (mentioned above). Meed further noted the last time the budget introduced new measures to raise revenues was in 1995 when charges for visas, permits, petroleum products, water, electricity, air tickets and telephones were raised. This was the first sizeable increase in services for Saudi citizens and the first stages in eliminating state subsidies as advised by the World Bank and the IMF.

Since the budget the government has increased the retail price of petrol sold locally by 50 percent (Reuters, 4/5/99:1). Reuters reported the move lifted petrol prices to 90 halalas (24 U.S. cents) a litre from 60 halalas (16 U.S. cents) a litre. Saudi

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Managing Director of SABIC.

Arabia in 1995 almost doubled local petrol prices as part of an austerity budget that cut subsidies and increased electricity prices.

4.3.2.3. Joining the World Trade Organisation.

Saudi Arabia joining the World Trade Organisation (WTO) will have a liberalising effect on the economy; it will allow the free movement of goods, services, labour and capital. Saudi Arabia is currently in the final stages of negotiating its accession to join the WTO. The first round of discussions on Saudi Arabia's application for membership took place in May 1996 (this dealt with trade in goods) and the second round in November 1996, focused on trade in services and intellectual property rights. The WTO's agreement should come into full effect in 2005 (Arab News: June 18 1998)[11].

Some advantages for Saudi Arabia joining the WTO include[12]:

- Membership will give access to a wider international market for Saudi Arabia's petrochemical industry as well as for other products. Moreover, the GATT Secretariat officials estimated that due to increased market access, global income would increase by US$ 500 billion per annum from 2005. These gains would further increase the demand for oil products, which in turn will spur growth and income in oil exporting countries (Zarrouk, 1994:6).

- Consumers will receive improved goods and services at more competitive prices, especially as Saudi Arabia will have to reduce its tariff rates from an average of 12percent to 7.2percent. Services (consulting, banking, insurance, transport, etc) will become more competitive because of the WTO and opening up markets will increase efficiency.

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[11] Although Arab News on 7 Sept. 1998:2 mentioned that Saudi Arabia will accede to the WTO by next year.

[12] Sources used for this section: trade experts and diplomats involved in the negotiation (cited in Reuters Information Service 1996:1-2); Saudi Minister of Commerce, Osama Faqeeh addressing the Jeddah Chambers of Commerce and industry (Arab News, 18th June 1998:9); NCB Economist (1998a & 1999b), Egyptian Chambers of Commerce (1996), Jeddah Chamber of Commerce and Industry (1995) and Dr. Abdul Momen Consultant for the SIDF (Arab News Tues. Sept 1st:2). For a wider analysis of the impact of GATT on the Middle East see Diwan, Yang and Wang (1998); Hoekman (1998) and the book edited by El-Naggar (1996).

- Improved protection of Intellectual Property Rights and access to disputes resolving mechanisms.

Some of the consequences of joining the WTO will be the removal of tariffs subsidies and customs barriers and opening up of markets. WTO will not allow discounted rate for raw materials for the petrochemical industry from ARAMCO, subsidised loans from the SIDF and the Agricultural banks or low utility, energy and land prices. Meed (3/10/97:3) noted that European producers are complaining that the SABIC's access to low-cost feedstock acts as a subsidy and an unfair advantage.

Consequently, many businesses that will not be able to compete are not expected to survive. A Study conducted by the Riyadh Chamber of Commerce (cited in Arab News Thursday August 6 1998:2) noted that because of the WTO, Saudi Arabia is expected to loose $76 million annually when its agricultural sector opens up to foreign imports (sic.). The social welfare sector will loose out $107 million due to increased values of imports. Thus, in general, the WTO will reduce the income of Gulf countries and increase their food import bills.

4.3.2.4. Saudiisation.

Although Saudiisation is not a form of liberalisation, it is an area stressed by the government to increase the role of the private sector. Since the Fourth Development Plan, the Saudi government has placed emphasis on the private sector to employ more Saudis. Saudiisation means that private companies have to increase their Saudi work force by five percent a year. Although the Sixth Development Plan (1995:171) did note constraints for the private sector with the policy of Saudiisation. Firstly, Saudis have shown a preference for employment in the government sector, which pays higher wages at middle level positions and provide greater job security, working conditions (in terms of working hours), employment regulations and promotion prospects. Secondly, that the private sector has naturally tended toward the recruitment of foreign workers, whose qualifications, training, wages and flexibility matches their requirement better. Finally, the training costs of upgrading new Saudi graduates are perceived as high.

There are a number of measures in place to encourage Saudiisation, such as refusal of government contracts to those who do not comply. Government loans will also be linked to the rate of Saudi employment (Ministry of Planning (1995:109). Since the King's address to the Council of Ministers on 14 September 1998, where he stressed the role of the private sector in creating more jobs, it seems that there will be stronger measures in place. As noted in the Arab News (18 September 1998:1-2) these measures include forbidding manpower recruitment offices from hiring foreign workers if they fail to adhere to the rules and regulation regarding Saudiisation. The article continued by saying that the measures against the recruitment offices include rejecting their applications for the transfer and renewal of *iqama* and labour licenses of the number of employees equivalent to that of the required Saudis in their firm. According to Arab News, it is the expectation that these measures will be in effect from 21 October 1998. ARAMCO and SABIC are often cited as successful examples of Saudiisation as they have achieved over 70 percent of Saudiisation. In addition 94 percent of the 738 employees of the Ministry of Petroleum and Minerals Resources are Saudi (Ministry of Planning, 1995:197).

The Sixth Development Plan (1995:173) expects the private sector to generate increased job opportunities – 95 percent of net growth in aggregate employment is expected to occur in the private sector.

Table 4.3: Civilian Employment of the Sixth Development Plan.

	Employment		Net Increase	
	1995 ('000)	2000 ('000)	('000)	Percentage Share - percent
Private Sector	6,050.0	6,232.2	182.2	95.0
Government	817.7	827.2	9.5	5.0
Total	6,867.7	7,059.4	191.7	100

Source: Ministry Of Planning, Sixth Development Plan (1995:173).

It is also expected that 319,500 jobs in the government and the private sector will be Saudiised during the plan, therefore the number of non-Saudi workers will fall by 1.5 percent per annum.

The importance of providing employment is illustrated by Mutrif (1999:16) who estimated that there will be 5 to 9 million job seekers (between the years of 2000 – 2005) and there is a need to provide 600,000 jobs annually. He also forecast that in the near future unemployment would reach 13.2 percent. These figures are quite conservative compared to those suggested by Ghazi Obeid Madani, Director of King Abdul Aziz University. He suggested that Saudi Arabia's unemployment rate has more than doubled since 1993, with the jobless accounting for about 27 percent of the working-age population, which was 12 percent in 1993 (Reuters, 11/4/99:1).

4.4. DEVELOPMENT & GROWTH OF THE PRIVATE SECTOR.

This section aims to look at the growth of the private sector. One point that will be emphasised throughout this chapter is that the most important factor influencing progress and growth rates in different parts of the private sector is government policy and domestic expenditure - which is still dependent on oil prices. Recently this trend is slowing down.

The Saudi Arabian Economy has been greatly transformed since the discovery and the exploitation of oil. Traditionally the Saudi Arabian economy was based on subsistence agriculture, the livestock of nomadic tribes and the income generated by pilgrimages to Makkah and Madinah. Due to the rise in oil prices, especially after the early 1970s, growth and transformation occurred in the private sector. During this time, the private sector was focused mainly on trading and perhaps was ill equipped to deal with the rapid process of development. For example, the production of electrical power was transferred from private business to the government. It became clear that the private sector was neither up to meeting the economy's rapidly growing demand for electricity nor was it able to meet the government's increasing emphasis on standardisation of voltages and frequencies, a prerequisite to modernisation (Soufi and Mayer, 1991:11).

In the early years of industrialisation outside of the oil sector, production was basic – consisting of construction materials and simple consumer goods. The private sector is now involved in a number of manufacturing and industrial areas, including the production of petrochemicals. The agricultural sector has also developed greatly - Saudi Arabia is now the sixth largest exporter of wheat and there have been massive reductions of agricultural imports.

As additional measures of growing private sector importance, the Sixth Development Plan (1995:148) indicators that have been used to illustrate growth include:

- GDP;
- investment in fixed capital;
- employment; and
- numbers of companies.

Table 4.4: Major Indications of Private Sector Development.

	1975	1994
Number of Operating Companies	1,473	7,643
Invested Capital (SR billion)	7.0	108.7
Contributions to GDP (percent)	21.0	45.0
Contributions to Fixed Capital Formation (percent)	34.0	67.0
Employment in the Private Sector (million)	1.7	6.0

Source: Sixth Development Plan (1995:149)

4.4.1. PERCENTAGE SHARE OF THE GDP & GROWTH RATES OF THE PRIVATE SECTOR.

The different periods of the Saudi economy can be seen from Table 4.5 and chart 1[13]. The oil sector dominated the economy until 1981, accounting for the majority of the GDP. In 1969 the oil sector accounted for 55.8 percent of GDP and the private sector 31 percent [14]. However, by the last year of the of the First Development Plan, the percentage share of the private sector had decreased to 26.75

[13] Figures for Chart 1 are calculated from Table 4.5.

[14] The oil industry is totally owned by the government. As noted by Azzam (1993:35-6) the government retains the title to all mineral resources, sets policy and makes decisions on the level of production, investment and domestic energy pricing. The government is also the sole or major owner in most operating companies, such as ARAMCO, Petromin Lubricating Oil Refinery Company (LUBEREF) and the Petromin Lubricating Oil Company (Petrolube).

Table 4.5: Gross Domestic Product by sector (million Riyals).

	Year before First Plan 1969	Last year of First Plan 1974	Last year of Second Plan 1979	Third Development Plan 1980	1981	1982	1983	1984
1/ GDP	17,152	31,539	49,053	52,971	53,886	48,030	47,995	44,918
2/ Oil sector	9,566	18,903	23,869	24,653	22,383	14,309	13,033	10,883
3/ Non-oil sector	7,586	12,638	25,184	28,313	31,503	33,721	34,962	34,035
a) private	5,328	8,439	16,876	18,864	21,280	23,619	25,001	24,518
b) government	2,258	4,197	8,308	9,454	10,223	10,102	9,961	9,517

Source: SAMA 1986 and 1993

Data for 1969 to 1985 are in 1969 constant prices

Data from 1986 are in 1970 constant prices

	Fourth Development Plan					Fifth Development Plan				
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
1/ GDP	41,003	47,511	46,830	49,923	50,167	55,565	60,284	61,586	61,511	61,841
2/ Oil sector	9,241	13,032	11,524	13,931	13,629	16,671	20,618	21,598	21,258	21,299
3/ Non-oil sector	31,762	34,479	35,306	35,992	36,538	38,894	39,666	39,988	40,253	40,542
a) private	22,601	26,041	26,280	26,907	27,283	28,310	28,864	29,335	29,131	29,396
b) government	9,161	8,439	9,026	9,085	9,255	10,584	10,802	10,653	11,122	11,146

Source: SAMA 1993 and 1998

Preliminary forecast

	Sixth Development Plan		
	1995	1996	1997*
1/ GDP	62,004	62,893	64,104
2/ Oil sector	21,356	21,803	22,309
3/ Non-oil sector	40,649	41,090	41,795
a) private	29,533	29,830	30,359
b) government	11,116	11,260	11,436

Source: SAMA 1993 and 1998

* Preliminary forecast

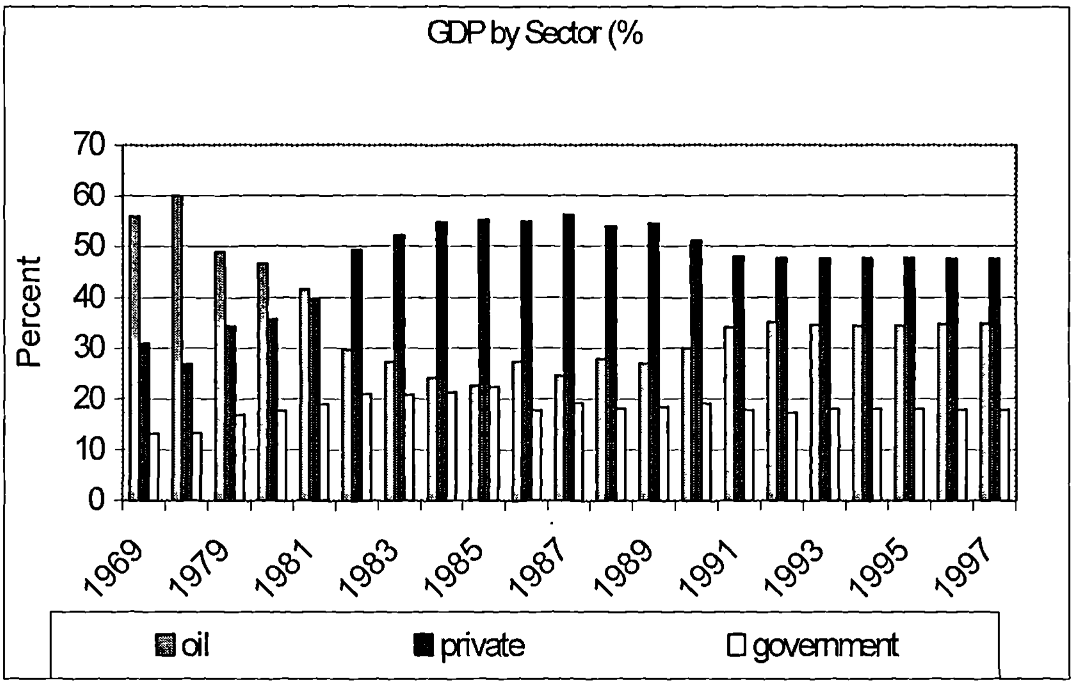
percent. This was due to the increased importance of the oil sector due to the oil price boom. In absolute terms the private sector's contributions to GDP had increased from 5,328 to 8,439 million Riyals and saw very high growth rate. Table 4.6 shows the growth rates of the different sectors during the development plans. During the first two development plans the private sector (as with most other sectors) saw a high level of growth – 6.6 percent during the First Development Plan and 14.9 percent during the second (which was above target)[15]. At the end of the Second Development Plan the private sector accounted for 34.4percent of the GDP. The importance of government expenditure for private sector growth during the Second Plan can be illustrated by the following quote from the Third Development Plan (1980:32):

> "In most sectors, government agencies manage the spending of public funds, while the implementation of the government's expenditure programme is actually undertaken by the private sector. The activities of the private sector are, therefore, closely linked to the scale and scope of government expenditure and can be divided into two categories: 'induced' (activities generated by government expenditure) and 'autonomous' (activities serving the private sector proper).
>
> The extent of the private sector's dependence on government expenditure can be measured, indirectly, by the ratio of its autonomous activities to non-oil GDP*. In the first year of the Second Plan this ratio fell from 54percent to 36percent, corresponding to the substantial growth in the volume of government contracts. In the following years, however, it continued rising and reached 48percent in 1978. It is estimated that in the final year of the Second Plan the proportion of autonomous private sector activity in non-oil GDP declined to under 40percent.

* Numerically, the level of autonomous activities is approximated by the difference between the non-oil economy's gross output and the values of government expenditures."

[15] Percentage growth rates are taken from Table 4.6.

Chart 4.1: GDP by Sector (percent).



During the First Development Plan the sectors with the highest growth rates included construction (linked with infrastructure development), other manufacturing, wholesale sale & retail trade and restaurants & hotels. In the Second Development Plan all private sectors had faster growth rates except construction where growth rates have slowed down[16].

[16] This unexpected reduction in the percentage growth rates of the construction sector can be misleading, as the Second Development Plan continued to put emphasis on the development of infrastructure and the construction of roads, ports, housing, water and electricity networks. During the Second Development Plan physical and infrastructure development accounted for 22 percent of the total budget (the largest share of a much larger budget). In addition, during the Second Development Plan the majority of the SIDF loans went in the direction of the construction industry (Moliver and Abbondante, 1980:62). The period between 1975-80 saw a shift in labour to the construction sector (El Mallakh, 1982:25). Thus, this would suggest increased growth rates for construction. SAMA figures (see Table 3.9, chapter 3) also show the same trends as Table 4.6, i.e. that growth rates of the construction sector slowed down during the Second Development Plan. The average percent growth rate for the period of 1970-4 and 1975-9 was 22.23percent and 16.39percent respectively (SAMA, calculated from Table 3.9, chapter 3). In absolute terms, the construction sector showed good growth rates, from 3,309 Million SR in 1975 to 5,120 in 1979. During the First Development Plan the construction sector grew from 957 Million SR to 2,461. Thus, percentage growth rates can be misleading. In 1970, there was a low base level to calculate the percentage growth from. By 1975, the construction boom had started due to the sharp increases in the oil price and therefore the base for calculating the percentage increase from was much higher especially since the fastest period of growth for the construction sector occurred between 1974 and 1976. The construction sector was in boom until 1981, from then onwards it started to decline as emphasis shifted away from construction due to many of the infrastructure projects were completed.

Table 4.6: Growth in Oil and Major Non-oil Sectors (compounded annual real rates of growth).

	I plan Average	II plan Average	III plan Average	Average of 3 plans	1985
Total GDP	13	9.2	-1.6	6.9	-8.7
Oil sector GDP	15.1	4.8	-14.5	1.8	-15.1
Non-oil GDP	10.1	14.8	6.2	10.4	-6.7
Government	20.1	14.6	2.8	12.5	-3.7
Private:	6.6	14.9	7.8	9.8	-7.8
Agriculture, fishing & forestry	3.6	6.9	9.5	6.7	13
Construction	21.4	15.8	-2.4	11.6	-20
Electricity, Gas & Water	3.4	21.9	21.2	15.5	11.4
Manufacturing (total)	3.9	9.8	7.3	7	-4.6
Refining	0.9	6.1	3	3.3	2
Other	10.8	15.4	11.7	12.6	-9.8
Transport, storage & communications	0.7	19.3	7.1	9	-11.8
Wholesale & retail Trade, restaurants & hotels	13.8	22.7	8.7	15.1	-11.8
Finance, Insurance, real Estates and business Services	7.9	23.7	2.5	11.4	-2.5
Community Social and Personal Service	7.1	10.6	4.4	7.4	-0.8

Source: SAMA 1986[17]

The 1980s saw quite a different picture. The share of the private sector continued to increase its share of the GDP until 1987 where it accounted for 56 percent of the GDP, whilst the oil sector accounted for 24.6 percent. This was not due to growth in the private sector but rather due to the decline in the contribution of oil sector as a result of declining oil prices. The private sectors absolute contribution to the GDP (Table 4.5) kept increasing until 1983 but there was a reduction in 1984 and 1985.

The growth rates of the private sector slowed down in the Third and Fourth Development Plans. The third development saw an average growth rate of 7.8 percent and in 1984 and 1985 the private sector's GDP growth rates were negative. Table 4.6, shows the individual sectors which also indicate a reduction in growth rates in all the sectors, with construction displaying the greatest negative growth rate. Most sectors had negative growth rates in 1985. The end of the decade saw a slow recovery. The slowdown in the private sector and the economy as a whole has to do with the reduction in oil revenues (from a peak of US$101 billion in 1981 to

US$21 billion in 1989). This in turn caused a corresponding reduction in government expenditure (especially on new projects) and a deep recession lasting from 1983 to 1986 (Azzam, 1993:11 & Looney, 1990:31).

From 1991 the private sector has accounted for about 47 percent of GDP. The early 1990s have seen steady growth for the private sector. From 1991 to early 1993 the economy surged; internal wartime spending boosted liquidity and stimulated new private investment (Table 4.4). Following this, despite dips in the oil price and government budget cuts the Saudi private sector continued to grow, and whilst there was a slight decline in the rate of growth, it was not as much as the oil and government sectors. This is a sign that the dependence of the private sector on the government and oil sectors has started to somewhat weaken (NCB, March 1994:4; Taeker, 1996:4; EIU, 1996/7:19). In 1995 there was a slight reduction in the growth rate of the private sector compared to the previous year. The NCB Economist suggested this was a result of government retrenchment and domestic demand has being restrained by higher import prices due to the surge of the Yen and the European currencies in relation to the Riyal and the Dollar. Wages have been under pressure due to the freeze imposed on public sector employment and the rise in price of utilities. Also, delayed government payments to contractors contributes to the tight liquidity conditions in the sector. From mid-1996 the activities of the private sector increased (after a depressed first half of the year), with average nominal GDP growth rates of 3.5 percent (NCB Economist, Jan 1997:2). This was attributed to higher oil prices and the government paying its debts. These debts were from 1992 and valued at $5,900 million, the debts were paid to farmers, contractors and medical suppliers (Meed 21/3/97).

Thus, although the dependence on government expenditure on the growth of the private sector is weakening, the link is still evident. The further independence and continued strength of the private sector can be illustrated in 1998, which is especially poignant due to the turbulent international economic situation and the sharp fall in the oil sector. The NCB Economist (Jan/Feb 1999:1) stated that oil prices fell to a 25 year low in 1998, averaging $12.71 a barrel for Brent crude, down

[17] Unfortunately after 1986, the annual SAMA reports do not show the growth rates of the different sectors of the private sector.

from \$19.06 in 1997, which had a major impact on the economy. Arab News (29/12/1998:1) quoted the King when addressing the Cabinet's budget session:

> "He pointed out that the Kingdom's oil sector had contracted 34.8 percent in 1998 due to unfavourable international economic development. 'Despite that there are positive indicators, most importantly the continuation of good performance of the private sector which is expected to achieve a growth of 2.12 percent,' he said, adding that non-oil industrial sector had achieved a growth of 5.5 percent."

The private sector has shown healthy growth rates over the last three years; the Saudi Economic Bulletin (1999:5) noted that during this period, the value added has increased by over 10 percent.

The importance of the link between government expenditure and private sector growth and the recent weakening of the link can be illustrated from a study conducted by the IMF (1998:29-31). The analysis used the Hendry/LSE approach to modelling time series from "general to specific". The results of the study are summarised below:

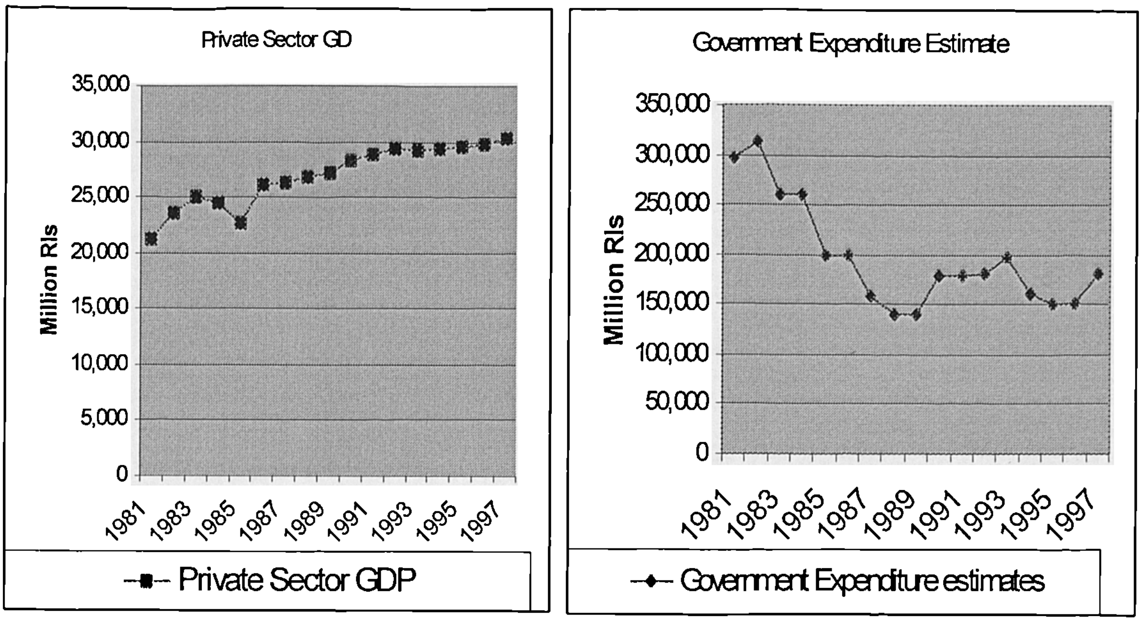
> " – For the entire period 1969 – 1997, growth of the non-oil private GDP in Saudi Arabia seems strongly positive correlated with budget expenditure. An increase of 1 percent in total government expenditure may generate about 0.5 percent increase in private sector GDP.
>
> – However, the impact of government expenditure on non-oil private sector growth was uneven. Until 1982, the private sector output was clearly dependent and stimulated by government expenditure, with each one percent increase in government expenditure translating into about 0.6 percent growth of real output in the private sector. Since 1983, the impact of government expenditure on private output appears to have weakened significantly, indicating reduced private sector dependence on government spending."

In conclusion, the growth rates of the private sector have been dependant on the oil sector and the resulting government expenditure. However, this trend is showing signs of weakening and the private sector has gained independence. This can be illustrated from Charts 4.2 and 4.3, which show the upward trend of the private sector after 1985 (even though there were different rates of growth), whilst government expenditure continued to decrease until 1989. This would indicate that the autonomous private sector is growing. As the Sixth Development Plan (1995:145) noted:

> "During the Second and Third Development Plans, the increase in government expenditure – which was of historic proportions – began to shape more forcefully the modern emerging private sector, as it successfully implemented a wide range of industrial, agricultural, health care, transport and operations and maintenance projects, thus verifying the complementary links between the public and private sectors, and confounding any false assumptions about a possible contradiction between the two sectors.
>
> With the fluctuations of the Kingdom's oil revenues during the Fourth and Fifth Development Plans, moreover, the private sector's ability to adapt to external and internal shocks became clear. Encouraging signs of a more mature and autonomous private sector began to appear, whose reliance on government expenditure as been reduced."

This does not mean that the link between oil revenues, government expenditure and private sector growth has been eliminated. As seen above the higher growth rates from mid 1996 and 1997 were a result of higher oil prices, the government paying its debts and there was also increased government expenditure compared to the two previous years. Signs indicate that the private sector is not as dependent on government spending as it was previously.

Charts 2 & 3: Private Sector GDP and Government Expenditure.



Source: Private Sector GDP from Table 4.5, Government Expenditure Estimates, SAMA (1998:306-307).

4.4.2. PRIVATE SECTOR INVESTMENTS.

There are other economic measures apart from GDP, which also indicates growth for the private sector. One of these is investment (i.e. gross fixed capital formation). Capital formation and accumulation has an important role to play in economic development; in fact, in certain models such as the Harrod-Domar model it plays the central role. Gillis et al. (1996:267) argued that out of the many .approaches to measure development, the emphasis on capital formation is perhaps the most influential and durable. Although the connection is not definite, increase in investment indicates that private sector activities are flowing into productive ventures (Looney, 1996:41) and they also indicate growth rates of the private sector (Presley, 1986:28). Thus the figures from Table 4.7 can be used to show private sector growth, although they would be more useful if they indicated the direction of private sector investment.

Table 4.7: Gross Fixed Investment by Sector (in Million Riyals)

	Year before first plan 1969		Last year of first plan 1974		Last year of second plan 1979		Third Development Plan									
							1980		1981		1982		1983		1984	
	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share
Government sector	1,214	46.7	7,370	41.6	61,598	63.4	66,874	62.9	73,881	60.4	66,411	57.5	50,026	48.5	43,033	47.2
Private sector	1,056	40.7	6,670	37.7	23,207	24	28,691	27	35,830	29.3	34,162	29.6	41,320	40	38,606	42.3
Oil sector	327	12.6	3,659	20.7	12,264	12.6	10,811	10.1	12,604	10.3	14,881	12.9	11,882	11.5	9,575	10.5
Total gross fixed investment	2,597	100	17,699	100	97,069	100	106,376	100	122,315	100	115,454	100	103,228	100	91,214	100

Source: SAMA 1986.

Table 4.7: continued (in Million Riyals)

	Fourth Development Plan									Fifth Development Plan				
	1985		1986		1987		1988		1989		1990		1991	
	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share
Government sector	32,775	42.95	25,184	38.07	27,402	42.03	24,029	42.22	26,285	43.51	42,491	57.57	45,201	52.25
Private sector	35,233	46.17	32,033	48.43	31,047	47.62	31,642	55.59	32,590	53.95	27,078	36.69	36,804	42.54
Oil sector	8,302	10.88	8,927	13.50	6,753	10.36	1,247	2.19	1,534	2.54	4,234	5.74	4,505	5.21
Total gross fixed investment	76,310	100.00	66,144	100	65,202	100	56,918	100	60,409	100	73,803	100	86,510	100

Source: SAMA 1993.

Table 4.7: continued (in Million Riyals)

	Fifth Development Plan					Sixth Development Plan				
	1992		1993		1994		1995		1996	
	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share
Government sector	32,289	34.36	30,029	30.50	23,969	28.63	25,167	29.40	26,859	29.60
Private sector	54,686	58.19	60,421	61.37	51,654	61.71	52,220	61.01	55,352	61.00
Oil sector	7,000	7.45	8,000	8.13	8,084	9.66	8,208	9.59	8,536	9.41
Total gross fixed investment	93,975	100.00	98,450	100	83,707	100	85,595	100	90,747	100

Source: SAMA 1996:174.

Private sector growth (as mentioned above) corresponded with increases in private sector investments (see Table 4.7, which shows the Gross Fixed Investment by sector). As with the high rate of growth in the 1970s Gross Fixed Investment of the private sector grew steadily from 1969 to 1981 (from 1,056 to 35,830 million Riyals respectively). Again, despite the absolute levels of growth, there was a percentage decline, mainly due to the higher levels of growth in the government sector, which increased in absolute terms from 1,214 million Riyals in 1969 to 73,881 million Riyals in 1981[18]. The percentage share of private sector investment accounted for 40.7 percent in 1969. By the last year of the Second Development Plan, the private sector accounted for 24 percent of total Gross Fixed Investment.

The 1980s also saw a decline in the level of Gross Fixed Investment after it reached its peak in 1981 (Table 4.7) and continued to decline until 1990 (except for 1989), when it reached a level of 27,078 million Riyals. From 1985, the private sector accounted for the largest sector for investment in absolute terms, which was the equivalent of 46 percent of the total Gross Fixed Investment. Some of the reasons suggested by SAMA (1997: 80) for the decline in the Gross Fixed Investment of the private sector are:

- the decline in the value of oil exports, which reduced government revenue and hence government expenditure, the primary determinant of non-oil economy.
- depressed profits and persistence of excess capacity in certain parts of the private sector; and
- reduction of investment in physical infrastructure due to its near completion. SAMA (1986) also noted that in 1985 construction accounted for 72percent of total Gross Fixed Investment.

From 1990 Gross Fixed Investment started to increase again. Between 1991 and 1992 there was a large increase of 48 percent. Long (1997:89) attributed this growth to an increased repatriation of private capital after the recession in the mid-1980s and especially after the Gulf War. Private capital inflows increased from $8.2

[18] Private sector consumption is also very much dependant on government expenditure (Fifth Development Plan). For the decade between 1970-80, private consumption grew at an annual rate of 28 percent (Johany, 1986:20). The recession and effect of government expenditure cuts can also be seen through private sector consumption. There was a decline in private sector consumption from 1984 until 1988, after which it began to rise.

billion in 1989 to $14.1 billion in 1991. This resulted in greater private sector investment and indicated an increased confidence in growing commercial opportunities. Long noted (1997:89):

> "Declining public sector transfers to the private sector in the 1980s and 1990s actually strengthened the private sector, encouraging a new class of young, Western-educated Saudi entrepreneurs seeking investment opportunities for their own capital, not just lucrative government contracts. This could be one of the most significant and positive developments in the Saudi economy in years."

The Sixth Development Plan (1995:149) also noted that private investment has gained momentum covering most sectors of the national economy, particularly after the Gulf war, and has exceeded earlier expectations and the increased investment indicates a greater confidence in the domestic economy. Private sector Gross Fixed Investment continued to rise until 1994 (when there was a drop) and then from 1995 when it began to rise again. The preliminary projections indicate that the private sector's total fixed investment during the Fifth Development Plan amounted to SR 200 billion.

However the NCB Economist (1999a:1) estimates that the likelihood of reduced government spending in 1999 (due to falling oil revenues) will lead to lower private consumption and business spending on fixed investment.

Thus, Gross Fixed Investment of the private sector shows the same trends as shown by GDP. There were high rates of growth in the 1970s, with a percentage increase of 33 percent. The 1980s however witnessed a downward trend (as mentioned above, one of the SAMA suggestions for this was the reduced level of government spending, resulting from lower oil prices). This again indicates (as the GDP did), that private sector growth was very much linked with oil prices and the subsequent government spending. In the 1990s Gross Fixed Investment showed more positive signs of growth.

4.4.3. PRIVATE SECTOR EMPLOYMENT.

Another indicator of private sector growth lies within employment statistics. In 1966 the private sector accounted for 89.03 percent of the work force (see Table 4.8). It was estimated that by the end of the First Development Plan the percentage share of the private sector was to decline to 87.24 percent, although the number employed in the private sector was expected to grow by 4.6 percent (i.e. faster than it did before the Development Plan). Growth rates of the public sector were expected to grow at a faster rate.

Table 4.8: Percentage Distribution of Employment by Sector.

	Percentage Distribution of Workers		
	1966	1970*	End of plan*
Private sector	**89.03**	**88.13**	**87.24**
Nomads	15.02	12.3	9.02
Settled Agriculture	31.16	28.07	23.34
Petroleum	1.48	1.27	1.05
Mining and Quarrying	1.02	1.15	1.38
Manufacturing	4.07	4.39	4.72
Construction	10.33	11.99	13.74
Electricity, Gas, etc	0.83	1.03	1.31
Commerce	9.51	11.03	13.24
Transportation	4.37	5.26	6.58
Services	10.83	11.64	12.86
Others	0.41	-	-
Public sector	**10.93**	**11.69**	**12.36**
Petromine	**0.04**	**0.18**	**0.4**
Total	**100**	**100**	**100**

Source; First Development Plan, 1970 * estimates

The main areas of private sector employment were settled agriculture, nomads, transportation and construction. The First Development Plan expected there to be a decline of employment in agriculture and nomads. As the Plan (Ministry of Planning, 1970:74) noted:

> "For the nomadic group, the attractions of more stable living conditions in cities will continue to encourage Bedouins to settle in urban areas and their environs, although the sedentarisation effect of specific projects designed for this purpose may remain comparatively small. It would seem that the transfer from nomadism directly to the environs of urban areas, and consequently, to modern industries, will increase.

> A decline of 1 percent per annum in the nomadic labour force in the pre-plan period may become 1.5 percent during the plan."

It was also noted that in several private sector industries, the rate of growth of employment was expected to be 6 to 9 percent per annum, but in petroleum growth was expected to be 1 percent (due to its capital intensive nature).

Indeed, the agricultural sector saw a decline in the numbers employed and an exodus of labour to industrial employment where remuneration is substantially higher. 96,000 left agricultural employment in the period of 1975-1980 (Presley, 1984:80). Also, as expected employment reflected the aims of the development plans. In the 1970s during the construction boom there was an increase in its labour force as can be seen from the table below, and during the 1980s with the completion of projects there is expected a downturn (Johany et al., 1986:131).

Table 4.9: Size of the Construction Industry.

Year	Turnover (SR billions)	Manpower
1976	42.2	232,760
1977	69.9	345,380
1978	99.2	431,300
1980	123.3	533,160

Source: Local Industry Development Department, Trends in the Construction Industry (cited in Johany et al, 1986:131).

By 1989 private sector employment accounted for 5,147,000 million, the equivalent of 89.17 percent of civilian employment, whilst the government accounted for 10.83 percent (Ministry of Planning, 1990:80). The Sixth Development Plan (1995:148) noted that by the end of the Fifth Development Plan employment in the private sector was more than 6 million, which accounts for more than 88 percent of the 6.9 million workers (Ministry of Planning, 1995:148). The Ministry of Interior (1994, cited in Saudi Development and Training Company, 1996:11) also placed private employment at roughly 90 percent, with 18 percent of private employment in companies with more than 10 employees and 82 percent in companies with less than

10 employees. The Sixth Development Plan (Ministry of Planning, 1995:147) noted a similar point:

> "The number of establishments covered by the social insurance system and employing ten workers or more reached about 17,000 in 1413. This accounted for only 5 percent of the number of establishments registered in the Commercial Register, so that the vast majority (95 percent) are small establishments employing less than ten workers."

Table 4.10 illustrates total civilian employment (not just private sector) and gives an indication of employment by sector. The sectors with the highest percentage share include community and personal services, trade, construction, and other manufacturing. As can be seen from Table 4.14, these are all areas where the private sector dominates.

Table 4.10: Civilian Employment by Sector in the Fifth Plan (in thousands)

	Employment		Change
	1989	1994	1989 – 1994
Producing Sectors	1,874.80	2,088.90	214.1
Agriculture	393.2	377.2	-16
Other Mining	3.7	4.4	0.7
Manufacturing	**494.7**	**566.9**	**72.2**
Petroleum Refining	15.2	16.8	1.6
Petrochemicals	6.5	8	1.5
Other Manufacturing	473	542.1	69.1
Electricity, Gas, Water	66.5	79.7	13.2
Construction	9.16	1,060.70	144
Service Sectors	**3,414.80**	**3,906.40**	**491.6**
Trade, Restaurants, Hotels	921.9	1,036.70	114.8
Transport, Communications	274.9	319.9	45
Finance, Real Estate	324.6	330.2	5.6
Community and Personal Services	1,893.40	2,219.60	326.2
Government Services	**711.2**	**817.7**	**106.5**
Non-oil sectors	**6,000.80**	**6,813**	**812.2**
Crude Oil and Natural Gas	48.6	54.7	6.1
Total	6,049.40	6,867.70	818.3

Source: Sixth Development Plan, Ministry of Planning (1995:80)

The role of non-Saudi workers can be established from a survey conducted by the Saudi Consulting House, Ministry of Industry and Electricity, which was carried out in 1990 and covered 1569 industrial enterprises (cited in NCB Economist, 1993:3). The largest concentration of Saudi workers in the private industries were in the Basic Petrochemicals, Coal and Plastics subsector, accounting for 50.31 percent of total employees of that sector. The percentage of Saudis in the other private sector industries did not exceed 12 percent. Livingstone (1993:94) noted that one of the greatest hindrances to the development programme (especially industry) has been the shortage of manpower and that the GCC states are at a cost disadvantage in overseas markets, compared with similar industries located in countries where labour is available. This is especially the case for the construction industry, Ernst and Young International (1992:39) noted that the reliance on foreign labour was in excess of 90 percent. But the greater problem has been in skilled labour in which Saudi Arabia has a shortage, especially with management and technology.

4.4.4. NUMBER OF COMPANIES.

As seen from Table 4.4 the number of companies operating between 1975 and 1994 increased from 1,473 and 7,643. The latest figures from SAMA (1998: 177-178) for end 1997 shows that there were 8,963 companies under licence from the Ministry of Commerce, with a total capital of more than SR 159 billion. The breakdown of these companies indicates that joint-stock companies accounted for 52 percent of the total capital of the companies, followed by limited liability partnerships and joint-liability partnerships accounting for 44.4 percent and 2.5 percent respectively.

The Sixth Development Plan (1995:147-148) listed the number of establishments in the Commercial Register between 1979 and 1994 and noted that:

> "... the number of establishments increased about five-fold in 15 years, reflecting the substantial increase in the private sector's importance in the national economy."

Table 4.11: Registered Private Companies and Establishments.

Regions	1979	1985	1990	1994
Central	34,963	56,471	76,989	130,761
Eastern	10,182	27,430	38,952	58,595
Northern	9,492	18,541	25,101	36,935
Western	20,271	62,417	88,600	135,972
Southern	3,862	12,620	18,995	29,304
Total	78,770	177,479	248,637	391,567

Source: Sixth Development Plan, Ministry of Planning (1995:148).

4.4.5. PRIVATE SECTOR EXPORTS.

Increases in private sector exports also indicate the growing strength of the private sector. Private sector exports have been expanding at a very quick rate - between 1985 and 1990, the private sectors non-mineral exports grew by 31 percent[19]. In 1991, plastics and chemical products accounted for 69.4 percent of private sector exports (Table 4.12). Other main non-petroleum products are metal products, steel structures, aluminium products and concrete pipes. Out of the total agricultural exports, wheat accounts for about 69 percent. The poultry and dairy sectors production has exceeded domestic demand and the surplus is being channelled to the Gulf and other markets. Building materials occupy fourth place amongst private sector exports; these include cement, bricks, gypsum, ceramics and sanitary wares. Other exports that have grown considerably in recent years are engineering products, beverages, food products, electrical appliances and paper products (Saudi Export Directory, 1993:17).

[19] The important role of government expenditure can be seen in the case of imports. Following the rapid growth from the mid-1970s to 1982, the value of merchandise imports declined by more than 50percent in the four years ending in 1986. This sharp decline resulted largely from the substantial reduction in domestic consumption associated with the drop in government spending and the related stagnation in the private sector economic activity during that period (Azzam 1993: 180). The main private sector manufacturing imports, financed through commercial banks include - motor vehicles, foodstuffs and textiles and clothing (SAMA, 1998:140).

Table 4.12: Export of private sector non-mineral products in 1991 (SR millions)

Product	SR millions	Percent of total
Chemical and plastic products	9420.1	69.4
Metal products	1455.6	10.7
Grain and farm products	987.2	7.3
Building materials	629.5	4.6
Engineering and electrical products	404.8	3
Paper products	308.3	2.3
Food and beverage	194.8	1.4
Other	170	1.3
Total	13570.3	100

Source: Saudi Export Directory, 1993:17.

As for the direction of the private sector exports (Table 4.13), most of the traditional industrial and agricultural exports go to the Gulf States whereas petrochemical products are directed to Asian and Western European markets. In terms of export revenues, Non-Arab/ Non-Muslim Asian countries are the major trade partners, within the private sector. The major export market for non-hydrocarbon products are the GCC (19.5 percent), followed by West Europe (19.3 percent). The Arab League countries occupy the fourth place, importing roughly 12 percent of private sector products (Saudi Export Directory, 1993:16).

Table 4.13: Non-mineral Export Destination of the Private Sector

Countries	SR millions	Percent of total
Non-Islamic/Arab Asian Countries	4357	32.1
GCC States	2651	19.5
West Europe	2615	19.3
Arab League member States	1663	12.3
Non-Arab Moslem Countries	1002	7.4
Australia	557	4.1
North America	456	3.4
Others	261	1.9
Total	13562	100

Source: Saudi Export Directory, 1993:16.

Since the Fourth Development Plan, the government has been encouraging the export of goods outside the oil and petrochemicals sector. Previously the thrust of government manufacturing policy was import substitution (Montagu:1994:73). Montagu also cited the depreciation of the Riyal against non-dollar currencies and massive amounts of private investment in industry as important factors for increased exports of the private sector. In order to identify and develop new export markets, the private sector with the support of the government has set up the Saudi Export Promotion Centre. The main objectives of the Centre are to assist exporters in formulating and implementing sound marketing strategies.

4.5. MAIN AREAS OF PRIVATE SECTOR ACTIVITY.

Table 4.14, shows the estimated GDP contributions of the private sector. The main areas of private sector activity in the producing sectors include Agriculture (99 percent) and Other Mining (95.0 percent)[20]. In the case of manufacturing areas of high private sector activity very much reflects government encouragement. These include Other Manufacturing and Construction (both 95 percent) and to a lesser degree Petrochemicals (63 percent). Although, the petrochemical field is an area that has seen increased private sector involvement recently. As noted by Meed (18/9/1998:22) "Private investment in new sectors such as petrochemicals, which has been dominated by SABIC, is rising and enjoys strong public support." In 1997 one of the largest private sector investments was by the Saudi-Chevron Petrochemical Company, which is the first company to have no direct state participation (Meed 21/11/1997:26). Other manufacturing included chemicals, building materials, engineering products and metal products (Azzam, 1993:63). The service sector has always traditionally been an area where the private sector has been involved, accounting for 74.9 percent of the service sector (Table 4.14). Particular areas where the private sector dominates are Trade (99 percent), Finance & Real Estate (95 percent) and Community and Personal Services (90 percent).

[20] This seems to be a high figure, as noted by Abdullah Dabbagh, the president of Ma'aden (The Saudi Arabian Mining Company), (cited in Meed, 18/12/1997:2). "Historically, the private sector's participation in the mining industry is limited, and it is apparent that the private sector is hesitant to invest in major projects, unless there is a form of government intervention. Ma'aden will attempt to bring the necessary changes in mining legislation and regulations to further shed the private sectors hesitation and create the required confidence." Ma'aden was set up by the government to take over the responsibility of the mining sector from the Pertomin. The government's policy has been to encourage the private sector (as well as foreign mining companies) to participate in the exploration of certain deposits through joint-venture companies (IMF, 1998:23).

Table 4.14: Estimated GDP Contribution by the Private Sector

	Value Added (SR billion) 1989	Estimated Private Sector Share (percent)	Estimated Private Sector Value Added (SR billion 1989	1994
Producing Sectors	**88**	**79.4**	**69.9**	**92.1**
Agriculture	22.2	99	22	30.9
Other Mining	1.7	95	1.6	1.9
Manufacturing	**33.1**	**48.6**	**16.1**	**22.9**
Petroleum Refining	17.9	18	3.2	4.2
Petrochemicals	4.9	6.3	3.1	4.6
Other manufacturing	10.3	95	9.8	14.1
Public Utilities	0.8	18	-	-
Construction	31.8	95	30.2	36.4
Service Sectors	**82.8**	**74.9**	**62**	**74**
Trade	28.2	99	27.9	32.3
Transport, Communications	21.7	15	3.3	3.9
Finance, Real Estate	23	95	21.9	28.1
Community and Personal	23	95	21.9	28.1
Services	9.9	90	8.9	9.7

Source: Fifth Development Plan, Ministry of Planning (1990:138).

The next section will look at the private sector activity in more detail to chart its development and to investigate the importance of the government within it.

4.5.1. THE INDUSTRIAL SECTOR.

Prior to the 1970s the economy was exclusively dependent on oil exports. Industry was only at an embryonic stage and there were only limited offshoots of the oil industry, which indicated the absence of serious attempts to diversify away from crude oil production and build an industrial base (Lackner, 1978:56). From the 1970s, the Development Plans aimed to expand the industrial sector and the oil windfalls also meant that previous obstacles to industrialisation (such as infrastructure) could be removed (Masood, 1989:1). The government aimed to develop the industrial sector through two methods - by direct involvement (i.e. setting up its own companies) and through encouragement of the private sector. The industrial development strategy has focused on the promotion of (IMF, 1998:21):

(i) the petrochemical industry;

(ii) heavy industry in iron, steel and cement; and

(iii) import substitution and export-oriented industry.

The resulting manufacturing sector is relatively diverse and covers a range from small-scale activity (in food and beverages, textiles, wood and paper) to heavy industries such as chemicals, petrochemicals, construction materials, etc.

Industry in Saudi Arabia can be divided into three groups:

1. **Oil-Related and Resource Based Industries (RBI)** - these are generally owned by the government with joint ventures with foreign companies. They tend to be large-scale basic industries and consist of hydrocarbon and related heavy industries, in which Saudi Arabia has a comparative cost advantage due to its crude oil and natural gas reserves.

2. **Non-Oil Industries** - which include factories regulated by the Ministry of Industry and Electricity (which are entitled to obtain loans from the Saudi Industrial Development Fund (SIDF)). Unlike RBI, the formal manufacturing sector is traditionally privately owned.

3. **The Small Scale Informal Manufacturing Sector** - which is comprised of small, labour intensive workshops engaged in small-scale production activities. These workshops are not required to obtain a ministry license or submit to its screening procedure, but they must have license from their municipality and register as a company with the Ministry of Commerce. The government has generally ignored this sector in funding.

This section will mainly concentrate on the non-oil industrial sector and to a lesser extent the small scale informal manufacturing sector as these are the main areas of private sector activity in the industrial sector. The IMF (1998:21) summarised the development of the manufacturing sector:

> "The relative share of the sector in non-oil GDP doubled between 1980 and 1997 reaching close to 10 percent; and employment in this sector is estimated to have grown by 6 percent a year during 1983-96, reaching about 8.2 percent of total employment in 1997. The value added in manufacturing expanded at about 8 percent a year in real terms during 1980-89. Growth rates slowed down to 2 percent a year during 1992-97, reflecting a sharp reduction in some incentives, including a reduction in the volume of concessional loans from the PIF and the Saudi Industrial Development Fund (SIDF), and the adverse impact of tighter fiscal policies. Export-oriented industries, including petrochemicals industries, are less vulnerable to fluctuations in domestic demand and have continued to drive growth in manufacturing. In 1997, real growth in the manufacturing sector is estimated to have risen to 3 percent."

For 1997, the SIDF (1997:24) placed the growth rate of the manufacturing sector to be higher at 8.6 percent.

The characteristics of the industrial private sector have been very much dependent on the government for two main reasons (The SABIERC Economic Report, 1997:51). Firstly, pure Saudi and joint venture projects where the capital exceeds SR 1 million must obtain an industrial license. This is a way for the government to regulate the private sector. Secondly, perhaps the primary mechanism for providing industrial development capital is the Saudi Industrial Development Fund (SIDF) which does so through a system of incentives. As a result, the industrial license and SIDF loans are good indications of the industrial development trends of the larger private firms in the economy.

Presley (1994:32) and Johany et al. (1986:114) noted the importance of public spending as an encouragement to the private sector. The private sector (mostly light) industries are sensitive to the level of government spending, since government funded or supported projects provide the basis of demand for many light industrial projects (Looney, 1990:77). A good example is the case of government spending on infrastructure and the impact on the construction sector (IMF, 1998:23). In just over a decade Saudi Arabia has virtually created its infrastructure from virtually nothing. In real terms construction grew at an annual rate of 18.5 percent from 1975 to 1985. In 1970, construction accounted for 11 percent of non-oil GDP, by 1980 its share had risen to 32 percent. The impact of growth in construction was not limited to this sector alone - the construction supply industry represented one-third of the factories established in Saudi Arabia, especially steel and cement (Johany et al., 1986:114). Auty (1990:107) noted that expenditure on social and economic infrastructure dwarfed that on RBI and was the key factor of growth during the Second and Third Development Plans. Construction investment from the mid-1980s was estimated at more than $270bn, with most of it coming from the public sector. The large role of the public sector is illustrated by the fact that in 1977/8 over 60 percent of the approved loans by SIDF went to the cement and building materials sector (Presley and Westaway, 1989:77). Since then due to the changes in emphasis of the Development Plans financial encouragement in this sector has fallen. Public spending on construction shrunk from (Auty, 1990:103), and there has been a corresponding decline in construction related activity. The construction industry contracted at an annual average annual 7 percent during 1982-89, but there was a slow recovery during the period 1990-97 of 1 percent per year (IMF, 1998:23). The construction sectors value added improved in real terms in 1996 and 1997 at 1.2 percent and 1.5 percent respectively. The IMF attributed this moderate growth to higher government spending, increased lending by the Real Estate Development Fund (REDF) and increased investments by the private sector.

The number of industrial licenses approved had a massive increase of 330 percent between 1975 (492 licenses) and 1979 (2114 licenses). In the early 1980s there was a reduction in the number of licenses awarded. 400 licenses were granted in 1981 and there was a 40percent reduction in the next year (Presley 1984:32-34). Presley suggested that this was a period of consolidation in the country and an opportunity to catch up with the high volume of licenses granted in the 1970s. There were high growth rates of licenses issued in all the major industries, especially food, chemicals, building materials, metals and printing and publishing. The number of new licenses issued for industrial projects again increased from 145 in 1987 to 288 in 1991 (Azzam, 1993:66-67). The authorised capital rose from SR 452 million in 1987 to SR 13.6 billion in 1990. The major industries established were chemicals (28 percent of the total number of licenses), metals, machinery & equipment (22 percent) and food and beverages (18.9 percent). Less than 18 percent went to industries such as textiles, wood and paper products, etc.

Table 4.15: Industrial Licenses and Units.

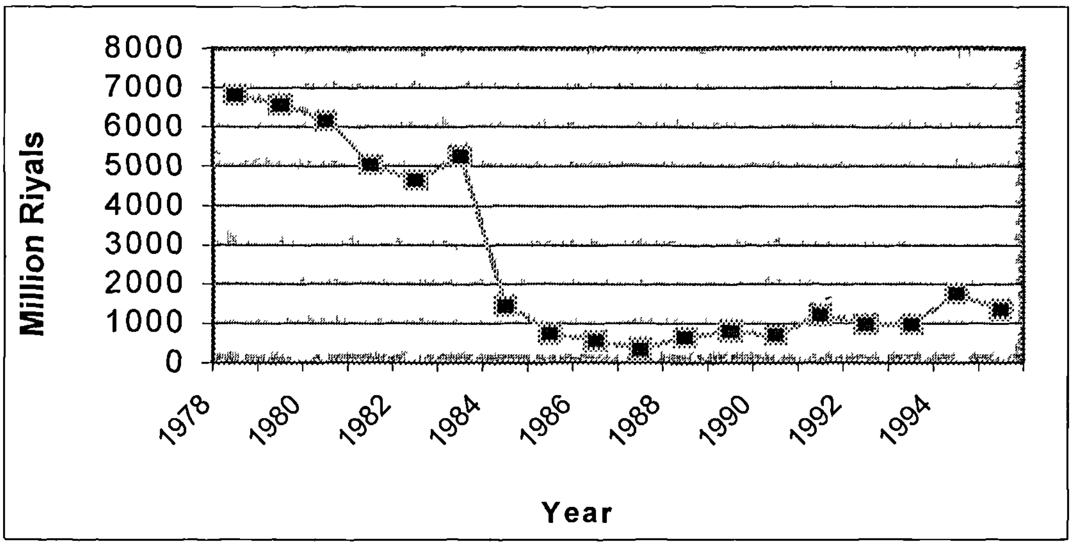
(Capital in Million Riyals)

	Licences Issued In 1996		Cumulative Operating Industrial Units		
Industrial Activity	Number of Units	Total Capital	Total Number	Total Capital	Employ-ment
Food and beverages	96	1,601.6	404	12,316.5	33,952
Textiles, ready-made garments and leather products	65	1,504.4	115	2,761.8	14,071
Wood products	32	219.6	121	1,688.8	10,003
Paper products and printed materials	29	438.0	170	4,971.2	13,000
Chemical and plastic products	240	4,231.7	501	124,190.9	56,200
Construction material, ceramic and glass	40	390.2	476	22,707.2	42,326
Basic metal products	8	2,016.4	13	4,307.8	3,559
Manufactured metal products and machines	172	2,982.3	717	16,363.6	60,176
Other industries	15	160.7	62	963.0	4,749
Transport and storage	--	--	19	402.1	1,995
Total	697	13,544.9	2,598	190,672.9	240,031

Source: Agency for Industrial Affairs, Ministry of industry and Electricity (cited in SAMA, 1998:181).

In 1996, 697 licenses were issued for the establishment of new units with a total capital of the units of over SR 13.5 billion. A similar trend continues as noted by Azzam (mentioned above), with the majority of the licences directed towards chemicals and plastic products (34.4 percent) followed by manufactured metal products and machines (24.7 percent) and food and beverage (13.7 percent). In cumulative terms the sectors that received the most licences were manufactured metal products and machines (27.6 percent), chemical and plastic products (19.29 percent), construction material, ceramic and glass (18.32 percent) and food and beverages (15.55 percent). In total these four industries accounted for 80.7 percent of all licenses issued. Chemicals and plastic products accounted for 65.1 percent of total capital of all existing units, followed by construction material, ceramic and glass (11.9 percent), manufactured metal products and machines (8.6 percent), food, and beverage (6.5 percent). These four industries account for 92.1 percent of total capital of existing units.

Chart 4.4: SIDF Credit Disbursements.



Source: SAMA (1997:214).

Just as the number of licences issued slowed down in the early 1980s, so did the credit disbursements of the SIDF from 1981 (1983 saw an increase), especially after 1984. The level of credit disbursements reached a trough in 1987. In 1984 (compared to the year before) SIDF loans dropped by 72 percent and by 48 percent in 1985. From 1988 the level of credit disbursements began to increase, although there were falls in the level of disbursements in 1992, 1993 and 1995. In 1995 the SIDF approved SR 1,341.3 million.

Table 4.16: Newly Approved SIDF Industrial Loans 1997 (by major sector).

Sector	Number	Cumulative Total	Value (SR Million)	Cumulative Total
Consumer Products	14	455	367	6,743
Chemical Products	23	345	1,124	9,579
Cement	1	17	5	4,730
Other Building Materials	2	275	76	4,121
Engineering Products	18	456	586	7,329
Other Products	5	31	25	362
Total	63	1,576	2,183	32,864

Source: SIDF Annual Report, Ministry of Finance and National Economy (1997:31-31).

The chemical products sector received the largest number of the new loans approved in 1997, 36.5 percent of the total new loans. In addition, 14 loans were approved for the expansion of existing projects, thus the chemical products sector received 51 percent of all loans approved during the year (SIDF, 1997:12). In cumulative terms, this sector has received the maximum number of loans (over 50 percent of all loans) and the highest value of loans (approximately 29 percent of total loans). The engineering products sector is the second most important in the size of the loans, accounting for roughly 22 percent of the value of loans approved by the SIDF. In 1997, this sector was also the second most important for the number and the value of the loans, approximately 27 percent of total lending. The third most important sector, for the number and value of loans in 1997, as well as for the cumulative value is the consumer products sector. The cement sector and the other building materials sector are fourth and fifth most import sector respectively in terms of cumulative value of loans, accounting for 14 percent and 13 percent. Although in 1997, only 0.22 percent of the value of loans went to the cement sector and 3.5 percent to other building materials sector, indicating the historical importance of the of these two sectors.

As an indication of industrial productivity, the SIDF (1997:24) used average value added per worker in the main industrial sector for the years 1994-1996. The chemical products sector ranks first in terms of average value per worker. The engineering products sector was next, followed by the building materials sector, consumer products sector had the lowest average value per worker. Although Saudi employment to total employment ratios in private industry remains conservative at about 7 to 15 percent, the ratio is rising in all the major sectors (1997:25). By 1996, the chemical products sector had the highest ratio with 14.5 percent of Saudi employment, followed by engineering products sector with 10 percent. The building materials sector and consumer products sector had 8.5 percent and 6.7 percent Saudi employment ratio respectively.

The government has placed emphasis on encouraging private sector participation in the petrochemical sector. A significant part of the future industrial development to be undertaken by the private sector is expected to be in secondary and tertiary petrochemical plants, utilising input materials produced in the basic petrochemical industries (NCB Economist, 1994:4). Miles (Meed, 26/3/99:19)[21] quoted the Minister of Petroleum and Mineral Resources, Ali Naimi as saying that private investment in the petrochemicals sector is "completely open and encouraged." In order to encourage private sector activity in upstream petrochemicals business, SABIC establishes the production facilities for a particular chemical and then sells 30 percent of the venture to the private sector (IMF, 1998:23). Especially with the new joint stock companies such as the Arabian Industrial Development Company (Nama), Saudi Industrial Development Company (SIDC) or Alujain (Montagu, 1994:68). In addition, Miles (Meed, 26/3/99:18-19) noted that the Kingdom offers domestic petrochemical producers several feedstock at a relatively low prices. These include:

- Natural gas – which is sold at $0.75 per million BTUs (which ARAMCO has stated is approximately its cost of production); and
- Propane and butane – by royal decree, these products are to be sold to domestic petrochemical producers at prices equal to 30 percent below the lowest export price received by Saudi ARAMCO, during the preceding quarter.

At present, private sector petrochemical plants have limited production capacity, despite this Obeid and Shafie[22] (1999:28) argue that they are very important due to their integration with SABIC and Saudi ARAMCO projects for providing raw materials for several industries. Private sector projects are licensed to produce 53 petrochemicals with 3.2 million tons annual licensed capacity (see Table 4.17). These private sector licensed companies increase domestic demand for petroleum and derivatives and product inputs needed for further industrial development.

[21] Within the Meed Special Report on Saudi Arabia (p11-22), Steven Miles contributed the "Legal Briefing – WTO and the impact on foreign investment in petrochemical projects".
[22] From the Industrial Development Department, Saudi Consulting House.

Table 4.17: Important Private Sector Licensed Petrochemical Projects.

Petrochemicals	Licensed Capacity (000 Tons)
Benzene	482
Cyclohexane	220
Linear Alkylbenzene	100
Ethanol amines	87
Acrylonitrile	100
Cumene	133
Formaldehyde	170**
Phthalic anhydride	60
Maleic anhydride	93.7
1,4 Butanediol, THF, & Butyrolactone	36.5
MTBE	900
Polypropylene	280
Acrylic & Styrene-Acrylic*	29
SBR Latex*	42.5
Polyether polyol*	37.1
Unsaturated polyester resin*	29.7
Alkyd resin*	23.5
Polyvinyle acetate*	30
TDI	65
Alph Olefins	68

* Existing Projects ** Design Capacity

Source: Obeid and Shafie (1999:28).

The 50:50 joint venture between Chevron and the Saudi Venture Capital Group, which aims to build a $650 million aromatic plant at Jubail, is the first example of an entirely private petrochemical project (Meed, 13/1997:4). Meed went on to say that SABIC is not involved as a sponsor and quoted a banker familiar with the deal as saying "SABIC is not there, but there is the Who's Who of the Saudi private sector". There has also been much interest in from the private sector in the new petrochemical venture launched by the AH Al-Zamil Group. The private sector have invested SR 500 million in the Saudi International Petrochemical Company, which will produce 50,000 tonnes a year (t/y) of butanediol, 10,000 t/y of maleic anhydride, 850,000 t/y of methanol and 200,000 t/y of acetic acid.

Thus, the nature of private sector industries has been very much dependent on and reflect the aims of the Development Plans, government licenses and government spending and loans. Most private sector manufacturing activity in the early 1980s was concentrated in the construction materials sector (cement insulation materials, pipes, bricks and wood products). However, due to the decline in construction sector activities, there has been a shift towards enterprises engaged in chemicals, engineering, food processing and metal fabrication, with particular emphasis on high value added projects.

4.5.1.1. Private Industrial Development Companies.

Two of the private industrial companies have been mentioned above with regard to the petrochemical sector. The Sixth Development Plan (1995:153) noted the emergence of these industrial development companies as evidence of the growing strength and diversification of the private sector. These companies have been formed to provide venture capital for large projects in the manufacturing sector. The Sixth Development Plan further stresses the importance of these private sector industrial development companies:

> "The significance of these new development companies lies in their readiness to invest as partners in large and medium-scale production projects, thereby sharing and reducing the associated long term risks, while performing a role in such projects previously played by the government."

There has been the setting up of private joint stock companies or groupings of Saudi businessmen to spearhead private sector industrial development. The most important include (NCB Economist, 1994:5; Monatagu, 1994:81 & Sixth Development Plan 1990:135):

- Alujain.
- Arabian Industrial Development Company (NAMA): set up in 1991 with 300 investors. It aims to generate more investment in local and foreign joint venture partners.
- National Industrial Company: set up in 1984, it provides start-up capital, invests in existing industries and creates industrial service and support projects in the private sector. Between 1984 and 1994 it had invested in 45 companies ranging from aircraft repairs to glass manufacturers and canning companies (NCB Economist, 1994:5).

- Saudi Advanced Industries Corporation: has a slant towards the defence industry.
- Saudi Industrial Development Company: formed with the aim of investing in a broader range of industries, including second and third generation petrochemical plants, import substitution industries and small offset projects.
- Saudi Venture Capital Group: formed in 1986, it is a loose grouping of senior members of the private sector and mainly focuses on the petrochemical sector.

4.5.1.2. Government Encouragement to Private Sector Industry.

As argued before, since the role of government encouragement have been central to private sector industrial development, this section looks at the government incentives to private sector industrialisation. There have been many ways in which the government has encouraged the private sector, although the granting of these incentives are not automatic but at the governments discretion (Montagu, 1994:60; Presley, 1984:56; Soufi and Mayer, 1991:22). As noted by Montagu (1994:60) the criteria for private sector industrialisation were simply expressed and had four key elements for manufacturing:

- a low labour component;
- low water requirements;
- energy intensive; and
- capital intensive.

But, as noted by Baum et al (cited in Soufi and Mayer, 1991:22) the results have been quite disastrous; an inefficient and unduly capital-intensive sector has been created, with low utilisation of capacity, high cost of production, little generation of employment and little savings of foreign exchange. If industrial projects sufficiently fitted these conditions the government would give a range of incentives, including cheap land, power, water, capital, process feedstock and tax holidays.

Forms of government incentives include:

1. **SIDF Loans**

At the heart of the government's financial incentive programme for industry is SIDF, which was set up in 1974. It has the responsibility to part finance industrial projects in the private sector. The SIDF is a soft loan agency, with a small service charge for long term loans (15 years) for up to 50 percent of the cost of a given project for a Saudi registered company with an industrial licence (1997:32). The project must be viable from a marketing, technical and financial point of view and the owner's equity must represent 25 percent of the project cost. The repayment schedule is designed to match projected cash flow. Once a loan is granted to the company, the SIDF also requires to undertake the following (1997:32)[23]:

- all building materials and equipment must be purchased from domestic sources;
- all engineering works related to the technical feasibility, design and supervision of the construction of the project must be awarded to Saudi consulting engineers (exceptions will be made where the expertise is not available); and
- clients must have certified Saudi auditors from the early stages of the project until the loan is repaid.

2. **Government purchasing of Saudi products**

From the mid-1970s the government has shown increasing favouritism to Saudi products in public sector purchases and also encouraged the private sector to do the same (Saudi Consulting House, 1995:26). As a result the Saudi private sector found itself in a very lucrative position, benefiting extensively from government contracts; thus many well-qualified personnel migrated to the private business sector (Soufi and Mayer 1991:30).

3. **Joint Ventures**

Government policy encourage industrial joint-venture projects (especially with renowned international companies) in order to aid the transfer of modern technology, managerial and international marketing capabilities and access to international markets (SIDF, 1997:17). Saudi Arabia provides a number of

[23] Also noted by Montagu (1994:77); Soufi and Mayer (1991:43) & Presley (1984:57).

incentives for foreign investors to establish joint ventures. These include (Ministry of Industry and Electricity, 1996:25):

- freedom from income and company taxation[24] for a period of ten years after commencing production and cheap loans for manufacturing and industrial projects with at least 25 percent Saudi equity participation
- exemption from customs duties on imports of raw materials, machinery and spare parts for manufacturing enterprises
- cheap land and energy costs
- access for export to GCC countries

Miles (Meed, 26/3/1999:18) added that for joint ventures in the petrochemical sector there is the incentive of low-cost feedstock provided by Saudi ARAMCO. One of the main ways to attract joint-venture projects and to encourage the private sector is the economic offset programme with companies from the USA, United Kingdom and France. These are where foreign companies (sometimes through Government to Government contracts), who have large defence contracts in Saudi Arabia are required to reinvest up to 35 percent of the technical content of the contract in high technology industries. The British Offset Office (1995:10)[25] noted that the targeted areas they are pursuing include: downstream petrochemicals; chemicals and process industries, pharmaceuticals and medical products; healthcare; food processing and agro-technology; minerals and mining, environment technology; textiles and engineering. This has been a way for Saudi Arabia to persuade companies to invest in the Kingdom and encourage the private sector. The economic offset programmes include:

- The Peace Shield programme (US$4 billion) has a component whereby those companies bidding for the defence contracts have a contractual obligation to put proposals to the sum of 35 percent of the value of military goods and services for investment in the country. Five projects, involving a total investment of SR 1.7 billion have already been established with US companies under the US offset programs (Montagu, 1994:74,75).
- The Al-Yamamah I and II defence programmes (1988), signed with the British government, who agreed to invest 25 percent of the value of military

[24] Foreign companies pay between 25 and 45 percent tax on profit.

goods and services in projects in the Kingdom. The onus was on the UK's Ministry of Defence (MOD) to spearhead the search for viable projects. British Aerospace was a prime contractor to the MOD. The British Offset Office (1995:2) expects the value of the programme to be at least £1 billion.

- The French government has signed a memorandum (1990) for offset economic investment under its defence Sawari II, with Thomson-CSF agreeing to invest 35 percent in viable projects in the Kingdom.

The Saudi government is trying to expand the Offset programmes despite the falls in the oil price (Prince Fadh ibn Abdullah (assistant defence and aviation minister for civil aviation affairs) cited in Arab News (2/2/1999:2)).

4. Export promotion. To help the private sector to diversify exports and expand foreign markets. Some of the incentives to gain foreign markets include (Saudi Consulting House, 1995:26):
   - Bilateral trade agreement with some Arab countries;
   - Bilateral "double taxation" relief agreement between the Government and some countries, which has led to the export of more Saudi products;
   - The governmental participation in regional and international programmes for the finance and insurance of export through its participation in the programmes of the Islamic Development Bank for long-term finance of trade and the Arab system for insurance and of exports licensed by the Arab Investment Guarantee Corporation;
   - Reducing port fees by 50 percent on exports of national industries;
   - The exemption from storage fees for exported goods for 10 days after they enter the customs area.

   Business International (1989:28) noted the importance of export markets to achieve reasonable economies of scale on most industrial products.

5. Import protection. Tariff protection on competing imported goods is amongst the important incentives for national products. The standard rate of customs range from 7 to 20 percent (Saudi Consulting House, 1995:28). Tariffs are intended to shelter domestic industries until they can compete with similar

[25] This information is from an information leaflet provided from the BOO office.

foreign commodities in the local market. Of the various conditions for tariff protection, three are most relevant (Ministry of Industry and Electricity:22, cited in Soufi and Mayer, 1991:37):

- the protected item must fill a major portion of the local market's requirements, with its quality insured to avoid burden or harm to the consumer because of increased custom fees;
- as the government acknowledges that local products costs relatively more protection is granted when the production cost of local items are higher than the sale price of the competing imported products; and
- protection is given to those industries that contribute positively to the overall economy.

6. Subsidies. For example in the industrial cities land is available to licence industrial projects at US 2 cents per square meter annually, whilst rent and purchase outside the industrial cities is extremely high (Saudi Consulting House, 1995:25). The Saudi Consulting House (1995:26) also mentioned the to low price of electricity where one Kilowatt/hour is US 2.6 cents for industrial consumption (as noted earlier in the chapter the rates have changed with the restructuring of the electricity sector). Water is provided at US 6.7 cents per cubic metre and gas and fuel are very low priced in the Kingdom.

7. Providing the necessary infrastructure. This is to support the industrialisation programme, such as the establishment of the industrial cities, roads, ports, etc. It was hoped that cost-reducing impact of this investment would make private investment more profitable, and thus stimulating major expansions in the private sector.

8. Human resource development. Providing the necessary facilities for human resource development with emphasis put on improving the educational and training facilities.

4.5.1.3. Small Industries.

Small-scale industry has totally been dominated by the private sector and generally been ignored by government funding and incentives for industrial development. For example, the SIDF only accepts applications from firms with an industrial license that requires a total investment of at least SR 1 million. This would disqualify small firms with a much lower capital base. As noted by Livingstone (1993:87,115), this would have excluded 85 percent or more of registered manufacturing establishments in Oman.

The contribution of small industries to the GDP has so far been limited but their impact on employment (and employment generation) is the most significant contribution of the small industries (NCB Economist, 1993:8). Although, the NCB Economist (1993:8) noted that small industries have played a strong contribution in output in certain sectors of the economy where they have partially been able to replace imports such as the food and beverage and basic products industries. The NCB Economist added that small industrialists have been able to diversify into textiles, leather, wood products, paper and printing. The Sixth Development Plan (Ministry of Planning, 1995:157) noted that the vast majority of private businesses are small, but these small businesses account for a large proportion of total employment.

60.4 percent of the private sector industrial establishment in the Kingdom are small, employing 50 people or less (see Table 4.18).

Table 4.18: Distribution of factories by size of employment, industrial subsector and nationality.

Type of Product	Less Than 9	10 to 19	20 to 49	50 to 99	More than 100	Saudi Employ -ees
Food, beverages & animal products	18	42	76	39	71	7.6
Textiles, apparels & leather products	4	5	17	4	9	4.3
Wood products and furniture	5	8	26	20	12	6.4
Paper products, printing and publishing	8	16	46	17	22	12.4
Basic petrochemical & coal	11	27	36	21	51	50.3
Tires & plastics	6	22	34	27	30	6.6
Ceramics & glass	3	7	11	4	6	5.1
Other construction products	17	59	109	55	56	10.5
Metal industries	23	69	112	50	49	11.7
Machinery, appliances & transport equipment	11	39	54	41	25	9.6
Other industries	7	10	23	8	14	5
Total private sector industries.	113	304	544	286	445	15.6

Source: Industrial survey, carried out by Saudi Consulting House, Nov 1991 (cited in NCB Economist August/September 1993).

In the small-medium category (enterprises with less than 50 people employed and with limited capitalisation), the metal industry accounted for 27.5 percent of total employment and for 22.1 percent of total capitalisation. Enterprises producing construction materials accounted for 24.5 percent of total employment and 19 percent of total capitalisation. Third in importance was the food and beverage industries. This sub-sector employed 9.67 percent of the total labour force in small industries and had a share of total capitalisation of around 11.26 percent (NCB Economist, 1993:4/5).

There are a number of constraints faced by small businesses in Saudi Arabia. These include (Sixth Development Plan, Ministry of Planning, 1995:157):

> " – limited access to finance, as most small enterprises are unable to satisfy the lending criteria of the commercial banks and the loan repayment guarantees required by the government's specialised credit institutions; as a result, many sound investment initiatives are unable to proceed;
>
> – the system of initiatives in its present structure, which does not allow small enterprises (capitalised at less than SR 1 million) to enjoy the privileges as customs or tax exemptions, or obtain land at nominal prices and fuel at supported prices;

> – low levels of management and production efficiency, the lack of advanced production technology and marketing techniques, and a shortage of marketing, technical and competitor information."

These constraints mentioned by the Sixth Development Plan are also highlighted by studies conducted by Hajjar's (cited in NCB 1993:6) and by Hajjar and Presley (1993:39-54; 1996:105-126). Some of the conclusions that can be made from their work include:

- A lack of policy for the provision of finance for the start up and operation of small firms. In Hajjar's (cited in NCB Economist, 1993:6) survey of small firms 68 percent were established through the owner's personal resources, 17 percent were supported by relatives and friends, 5 percent were exclusively supported by commercial banks and 3 percent by government lending institutions. In addition, there has consistently been inadequate finance available to assist the expansion of small businesses, not only by the government but equally commercial banks are reluctant to lend to businesses where records and financial statements are very poor, if not non-existent. In Hajjar and Presley's (1996:113) study, 95 percent of the small firms in their sample did not establish the business on the basis of a feasibility study or business plan. The study also found that 75.1 percent in the trade sector did not keep bank, sales, purchase, cash and payroll records; 47.4 percent did not keep independent bank accounts under the name of the establishment and 91.6 percent did not prepare annual budgets. As a result it is impossible for financial institution to apply management or project evaluation methods to assess the creditworthiness of the applicants.

- Poor management capabilities. Hajjar and Presley (1996: 120) study indicated that the level of management sophistication needed to be raised in each indicators of managerial efficiency in small businesses in the trade sector. They felt that this was very important especially when considering the importance of the trade sector to the Saudi economy.

Hajjar and Presley (1993: 53) concluded that:

> "The study showed clearly that severe management deficiencies in small businesses in Saudi Arabia not only limited the volume of demand for bank loans, but also prevented small businesses in general from making convincing applications for funding. The solution is not simply to change the nature of the financial institutions; perhaps more significantly, it is to provide the necessary education and training in management skills, and to appropriate regulations relating to application for, and utilisation of, funds for small-business development. But this deficiency in management skills is even more far-reaching, in that it not only contributes to the 'financing gap', but also to the general inability of small businesses to contribute fully to the development process in Saudi Arabia."

Financial constraints are made more severe by a basic stock exchange and capital markets that are not sufficiently developed. There are extremely limited channels available that can distribute the funds of domestic investors to those industries that need financing.

This sector is important for the future as it has the potential to generate greater levels of employment than large industries for the same amount of investment. In contrast with large industries, small industry tends to be more labour intensive. With the need to create employment for a rapidly growing population the development of small industries fits well in with the Kingdom's strategy of industrialisation and greater private sector participation.

4.5.2. THE AGRICULTURAL SECTOR.

As seen in Table 4.14, 99 percent of Agriculture is carried out by the private sector. Although it is the least important sector contributing to GDP, the nature of agriculture has changed dramatically from traditional to large-scale commercial agriculture, relying on advanced technology and irrigation techniques. The government has supported subsidies to the private sector for food security reasons in a move towards self-sufficiency, to improve the welfare of the rural population and to limit the migration to the urban areas. Government policy has resulted in several well-known large companies and some farming interests close to the royal family who have, of course, already made very high profits out of the government policies (Montagu, 1994:90)[26], to smaller plots that have been distributed under the land reclamation and distribution projects.

Traditionally, much farming was nomadic and wherever possible, traditional farming was practised. Before the discovery of oil some of the products of the economy included cultivating dates and breeding horses. Saudi Arabia is one of the world's fastest growing food producers and now the world's sixth largest exporter of wheat.

During the 1980s the agricultural sector grew at fast rates (roughly 12 percent annually between 1980-89 in real terms (IMF, 1998:20) and the agricultural sector was by far the most profitable sector of the economy in the 1980s (Business International, 1989:55). Business International noted that this growth was achieved at high costs to the government – in the 1980s the government is estimated to have invested SR 75 billion in agriculture, through its subsidies, interest-free loans and guaranteed price for wheat. Business International (1989:55) estimated that in 1988 wheat exports must have cost the government close to US$ 1 billion, i.e. the difference between the guaranteed price of $ 530 a ton and the world price of about US$ 130 a ton, multiplied by 2.2 million tons. Land under cultivation reached 1.831 million hectares in 1991 almost twice the area cultivated in 1986.

In addition, the value of agricultural commodities produced was estimated at nearly US$ 5.2 billion, in 1991. This was almost double the value of agricultural and feedstock imports of US$ 2.96 billion that year, and the Kingdom is now more than 50 percent self sufficient in vegetables and 20 percent in fruit (NCB Economist, November/December 1992:1/4). The high growth seen in the 1980s was a result of extensive subsidies, concessional loans from the Saudi Arabian Agricultural Bank (SAAB) and the infrastructural development, such as roads and dams. Due to the sharp cuts in the wheat procurement prices, growth of the agricultural sector fell to 1 percent a year annually (IMF, 1998:20). The IMF also noted that in 1996 the

[26] For some example of royal family involvement in the agricultural sector, see Chaudhry (1997:161).

agricultural sector accounted for 5.5 percent of total employment. Thus growth and development of the agricultural sector has been due to government price support and incentives, as well as the adoption of modern farming techniques.

4.5.2.1. The Main Agricultural Products.

The most important agricultural crops are grain (primarily wheat and barley), vegetables (primarily melons and tomatoes), and fruit (mostly dates but also very high quality grapes), see Table 4.19. Wheat has been the main engine of growth for Saudi Agricultural production followed by the livestock sector. In 1996, the value of wheat produced constituted around 62 percent of total grain production (SAMA, 1998:187).

Table 4.19: Cultivated Area and Production.

	Area (hectares)		Production (tons)	
	1995	1996*	1995	1996*
Total Grain, of which	707,831	565,859	2,670	1,934
Wheat	368,509	273,842	1,648	1,200
Barley	144,957	94,503	794	500
Total Vegetable, of which	159,066	155,966	2,690	2,630
Tomato	28,021	27,676	478	458
Water Melon	25,267	25,676	450	459
Total Fruit, of which	130,211	132,319	1,052	1,074
Dates	93,825	95,344	589	601
Total Fodder, of which	305,254	312,831	3,068	3,157
Clover	109,063	112,875	1,407	1,458

* Preliminary data

Source: Department of Economic Studies and Statistics, Ministry of Agriculture and Water (cited in SAMA, 1998:187)

As noted by the Johany et al. (1986:112), Business International (1989:56), NCB Economist (1992:4), IMF (1998:20) output trends reflect greatly on the government's subsidies programmes, price support policy as well as land reform policy, and growth rates of crops tend to be highest when subsidies are the highest. Also important is the use of new and improved farming techniques. A perfect example is the case of wheat and barley. Wheat has grown substantially ever since the government introduced the price support system and growth was fastest when the purchase price was the highest (the crop increased by around 100 percent in 1982 and 1983, when the price was US$ 1,000 a ton)[27]. After the price was dropped to US$ 533 a ton, growth dropped to 54 percent in 1985 and 6.6 percent in 1986. In the last few years the government has been trying to shift the production mix away from wheat and towards barley. The price of wheat has consistently been dropped, but prices are still massively inflated compared to international standards (Montagu, 1994:91). Major agricultural companies were also asked to transfer 30 percent of land under wheat cultivation to the production of barley.

Also, to encourage the production of barley, import subsidies for it have been reduced by two-thirds from 1987 and a domestic procurement price for barley at US$ 277 per ton was introduced. As a result, the area of barley cultivation rose from 7,000 ha in 1985 to 491,000 ha in 1991, and production increased from 10,000 to 50,000 tons. Despite this trend the Kingdom still continues to import large amounts of the crop (Azzam, 1993:109). Wheat production still grew due to the fact farmers increased the application of nitrogen and phosphate fertilisers to boost yields of existing fields. Azzam (1993:109) also noted that the fundamental economics of wheat and barley need to be changed to induce a wider shift from the production of wheat to barley.

Most recently, the government has been trying to shift away from high-water consumption crops in an aim to rationalise water resources and to promote profitable cash crops. Thus the policy to reduce procurement prices for wheat and barley. The preliminary data for 1996 indicates that there was a reduction in production and area cultivated, from the previous area for both wheat and barley (see table 4.19)[28].

[27] Other areas that have seen rapid growth include poultry, dairy and livestock production. There have been remarkable increases in output due largely to government support; broiler chicken production increased from 14 million in 1975 to 40 million in 1980; egg production rose from 204 million to705 million over the same period. Milk production also achieved almost a four-fold increase between 1978 and 1980 alone (Azzam, 1993:109).
[28] The IMF (1998:20) noted similar findings.

4.5.2.2. Government Support for Agriculture.

As seen from above, the strong performance of the agricultural sector has mostly been due to the subsidies and government price support. As noted by Johany (1986:115) these are at all stages of production from research and development to the governments purchase policy. Government support to try and encourage private sector investment has included:

1. The agricultural support programme which is administered by the Ministry of Agriculture and Water (MAW), the Saudi Arabian Agricultural Bank (SAAB) and the Grain Silos and Flour Mills Organisations (GSFMO). MAW is responsible for land reclamation, crop selection, seed development and the use and development of water resources. SAAB provides interest free loans to farmers, mainly for the purchase of farm machinery and drilling of wells. Due to the budgetary constraints and the completion of the major investments in the 1980s, the net disbursement by the bank have been declining (Azzam, 1993:106). In the eight years up to April 1983, 27,000 farmers received over SR 11.8 billion in loans from the SAAB, and agricultural subsidies through MAW between 1975 and 1985 totalled SR 6.7 billion. In 1982-1983 SAAB loans reached SR4.2 billion, but as just noted, began to decline, falling back in 1983-1984 to SR3.5 billion and SR2.3 billion in 1984-1985. Project lending accounted for just under 50 percent of SAAB lending by the end of the 1990s (Looney, 1990:49). The 1990s have seen the continual decline of subsidies, budget subsidies to the agricultural sector has fallen from SR 8.8 Billion in 1992 to SR 0.1 billion in 1997, and the transfer to SAAB became negligible (IMF, 1998:20). The reduction of loans and subsidies from SAAB can also be illustrated from the table below (although in 1996 and1997 there was an increase in the number and value of loans).

Table 4.20: Loans and Disbursement by Saudi Agricultural Bank.

	Loans		Subsidies
Year	Number of Loans	Value (Million SR)	(Million SR)
1993	4,429	931	249
1994	3,822	671	355
1995	2,642	413	--
1996	3,065	432	297
1997	3,942	627	229

Source: The Saudi Agricultural Bank (cited in SAMA, 1998:192).

2. The government has developed rural infrastructure, including irrigation, storage and drainage. Extensive efforts have been made to survey, develop and distribute arable land and to build a system of dams that will provide a more reliable water source for agriculture in many regions. A network of main, secondary and agricultural roads has been constructed in order to link production centres with marketing centres.

3. Many of the farm products are also purchased at prices which are well above the international market price, including wheat and barley by the GSFMO. The IMF (1998:20) outlined the changes in the procurement prices for wheat, which were introduced in 1979 at SR 2.5 per kilogram. In price was increased in 1980 to SR 3.5 per kilogram, and then successively lowered in 1985 to SR 3 per kilogram and in 1988 to SR 2 per kilogram. Business International (1989:55) estimated that even with the cut in the purchasing prices in 1989, the most efficient farms were making profits of up to 400 percent. The procurement price for wheat was again reduced in 1995 to SR 1.5 per kilogram.

4. The government also provides a number of direct and indirect subsidies for agricultural inputs (see Table 4.21).

Table 4.21: Agricultural Input Subsidies, 1997.

Input	Subsidies
Irrigation engines and pumps	50 percent of the official price fixed by the Ministry of Agriculture and Water
Farm Machinery	45 percent of the official price fixed by the Ministry of Agriculture and Water
Poultry farms equipment	30 percent of total cost
Dairy farms equipment	30 percent of total cost
Airfreight transportation for imported cows	Full cost for air transport*
Palm trees (newly planted)	SR 50/tree**
Seed potatoes	SR 2,000 per ton
Improved seed for wheat and barley	Provided by the national agricultural companies for about SR 1800-1900 per ton.

Source: IMF (1998:83), date provided by the Saudi Arabian authorities.
* number of cows should be 50 or more per shipment
** minimum of 30 trees, and with space between them according to government stipulation.

Despite the great advances of the agricultural sector, there has been a high cost to the economy through the high levels of subsidies and depletion of non-renewable water resources (especially as many farmers have installed wasteful and unnecessary irrigation systems). Current agricultural output has grown well beyond early expectations (Montagu, 1994:90; NCB Economist, 1992:7). The result is a very technically sophisticated sector but economically it is highly inefficient. Now that oil revenues have declined the real costs have become clear, but a powerful farm lobby has emerged which limits the government's options; and for the government the social and political advantages associated with agricultural development are more important than the cost of supporting farmers (Looney, 1990: 40).

4.5.3. THE SERVICE SECTOR.

Traditionally the main areas of private sector involvement have been agriculture and the service sector, in particular trade (Al-Bashir, 1977:40; Knauerhase, 1975:79). As noted by the National Center for Financial and Economic Information (1991:89):

> "Since pre-Islamic times, commercial services – and in particular, the distributive trades of wholesaling and retailing – have played a predominant role in the economy of the Arabian peninsular."

It has often been noted that the Saudi Arabian business mentality has been geared towards the service sector, most notably in real estate and trading. So much so that Auty (1990:215) has argued that the historical background and the higher returns with the lower risk offered by trade and real estate has been a hindrance to the industrialisation and diversification process.

The services and commerce sector in Saudi Arabia includes a number of sub-sectors, including:

(a) the distributive trades (wholesale and retail), and hotels and restaurants;

(b) warehousing and storage;

(c) public transportation services;

(d) banks, insurance and real estate; and

(e) personnel and community service.

It is difficult to summarise or generalise this part of the economy, as it is incredibly diverse in both output and the structure and components of the firm. For example, in transportation 'a firm' may be SAUDIA or an independent taxi driver. Within trade, companies such as the Saudi Research and Development Corporation (REDEC) with interests in import business, road and marine transportation, travel agencies, cold stores, shopping centres, and hotels co-exist with corner shops. The sectors also greatly vary in the level of private participation. Johany et al. (1986:145-149) used the example of the Transportation and Trade sectors to illustrate this point. Apart from some local bus services and private taxi services, transportation in Saudi Arabia has developed almost entirely since the 1960s and is government dominated. Whilst trade is an ancient industry and changes in its characteristics have been dictated largely by market realities and implemented by private decision-makers. Commercial enterprises are regulated by the Ministry of Commerce and are registered in the Commercial Register.

The preliminary statistics indicate the wholesale and retail trades, and hotels and restaurants accounted for 12.8 percent of the GDP[29] in 1997. In 1994, these activities accounted for more than one million jobs, employing 15 percent of the total labour force (Ministry of Planning, 1995:241). The Sixth Development Plan (Ministry of Planning, 1995:241) further noted the importance of the commercial sector:

> "It plays an essential role in achieving the general objectives and strategic principles of the socio-economic plan by providing goods, materials and services to citizens in all regions of the Kingdom and enhancing the sources of national income. Thus, the commercial sector can be seen as the lifeblood of all other economic activities."

As with the rest of the economy after the oil boom, the service sector has seen many changes in terms of volume and characteristics. With increases in oil revenues and in government spending, there was a surge in demand for imports could not by satisfied by domestic industrial production. There were, therefore, many opportunities in the service sector as well as a need for its development, in order to organise the massive importation of economic resources needed for expansion (National Center for Financial and Economic Information, 1991:89).

This development required the efficient regulation of and supervision of both domestic and foreign trade. Trade, in turn, had to be financed hence the need to develop financial services. Storage facilities had to be provided. Hotels and restaurants had to be constructed to accommodate the massive inflow of labour; and the rapid expansion in the labour force also created an increased need for personal and community services (Presley, 1984:74). When looking at the characteristics of firms in the service sector, the National Center for Finance and Economic Information (1991:89) noted that many service companies established (especially after mid-1970s) were linked to construction activities. Several of these companies have grown into diversified multinational companies. The new companies are typified by their corporate structure - a few having limited liability and almost none being public companies. Control usually remains with a family or is shared with a foreign joint-venture partner. Along with the multinational are numerous

[29] Calculated from SAMA (1998:272) table on GDP by types of economic activity.

commercial companies, ranging in size from very small traders to substantial retail companies. As can be seen from the table below all the various service sub-sectors saw high levels of growth during the first development plans.

Table 4.22: Service Sub-sectors – contributions to Gross Domestic Product (SR millions).

Sector	1974/5	1979/80	Average annual growth rate
Wholesale and retail trade, hotels and restaurants	6 439	17 447	22.1
Transport, storage and communications	7 756	20 227	21.1
Banks, insurance and real estate	7 138	13 144	13.0
Personal and commercial services	2 741	5 257	13.9
TOTAL	24 074	56 076	18.4

Source: Third Development Plan, p 264, cited in Presley, 1984:75.

Although due to the recession and fall in demand from 1983 many companies small and large have faced financial difficulties, especially those linked to the construction sector (Al-Farsy, 1990:139). In recent years, service sector with predicted high levels of growth include franchising ventures, education. Training and health care, information technology, leisure and entertainment related activity, banking and insurance (NCB Economist, Jan/Feb 1996:3).

As already noted in Table 4.14, particular areas where the private sector is dominant are Trade (99 percent), Finance and Real Estate (95 percent) and Community and Personal Services (90 percent); whilst transportation only accounted for 15 percent. The next section will look at private participation in some of these sub-sectors.

4.5.3.1. The Distributive Trades (Wholesale and retail) and Hotel Sector.

Tradesmen have been powerful economically, socially and politically especially in the Hejaz (which benefited from the Hajj and its proximity to European and North African markets. This sub-sector had the highest rates of growth in the economy and by 1968/9 accounted for the largest contributor to GDP (Knauerhase, 1975: 79). It also had the highest growth rates of the service sub-sectors during the first two development plans (Third Development Plan, 1980:265). This growth was mainly due to increases in public sector expenditure as there was an upsurge in aggregate domestic demand (including consumer goods and goods required for industry etc). Saudi Arabia lacked almost all these necessary goods, but due to the abundance of foreign exchange, it could meet its needs through imports. The government had followed a policy of no intervention concerning the amount of or the kind of goods imported. This dependency on importation has led to the development of a vital trading sector (Al-Bashir, 1977:41). In the recent past, the long established families have been joined by new members of the merchant class (Johany et al.: 1986:146). As with other sectors of the economy, there have been immense changes since the oil booms of the 1970s. These include:

- Contractors turned tradesmen. As many of the goods required for the construction industry needed to be imported, thus many contractors re-invested a part of their earnings in trade; and
- Saudis with large personal wealth who are in a position to benefit from the Kingdom's growth. Most Saudi businessmen found it the first opportunity to invest their savings, especially as there is the belief that rates of profit in trade are higher than in most other economic sectors (Al-Bashir, 1977:40, Auty, 1990:215).

Al-Bashir (1977:40) also noted, that amongst illiterate persons the establishment of a trade enterprise, no matter how primitive, is more common than the establishment of an industrial enterprise, even if the latter is more profitable.

The distributive trades are dominated by a very large number of relatively small establishments. Although there has been a tendency for some companies in this sector to grow in size, the number of very small organisations (employing less than five people) is still very high. In the mid-1980s, 94 percent of the retail establishments and 73 percent of the wholesale establishments employed less than five persons (National Centre for Finance and Economic Information, 1991:89)[30]. Saudi International (1989:49) explained the reason behind this trend, although noted that the trend was changing:

[30] This point was also mentioned in the Third Development Plan (Ministry of Planning, 1980:265).

> "The distribution of consumer goods in Saudi Arabia is still dominated by wholesalers. These people, many of them from Hadramaut, run very simple souk-based operations, normally covering just one region of the Kingdom and linking a major centre with the provinces around it. There is a network of regional wholesalers; for example, who truck goods from Riyadh to Qassim. They are very selective in the lines they take. If a big importer has 500 products, the wholesaler will take just 50 to 80 fast-movers. These they will resell at a wafer-thin margin. As they themselves are simple businesses, employing purely members of a family and a few Indians and Yemeni clerks, they have low overheads and can live with very small mark-ups. It is this feature of their businesses that influences the whole of the consumer goods market. When the wholesalers are working with tiny mark-ups, it is very difficult for importers and retailers to give themselves more or to cut out the wholesalers. It is the wholesalers who have made Saudi Arabia one of the cheapest places in the world in which to buy consumer durable goods – so cheap that Japanese electronics cost a lot less in the Kingdom than they do in Japan.
>
> There are a few signs that the wholesalers' grip on the Saudi market is weakening; operations that are so efficient are not vulnerable to attack. But the more powerful importers and retailers are constructing their own networks around them."

Amongst other changes in the commercial field are the developments in the retail trade. In the 1970s, most Saudi families conducted their shopping in the souk. Since this time, there has been the development of supermarkets, department stores and shopping malls.

Other characteristics include:

- low productivity, despite the large size of the labour force;
- foreign labour represent more than 70 percent of the total employed;
- traditional selling methods are still preferred by a large number of traders; and
- a lack of specialisation which leads to the division of managerial efforts amongst different products.

There has been very little government intervention in this subsector and its nature and development has been dependent on private sector decision making.

The Hotel Sector. Although the hotel industry has often statistically been classified together with the distributive trades, its characteristics are very different: there is more of a partnership between the government and the private sector. There was a large shortage of hotel rooms in the Kingdom. Consequently, the first two development plans put forward a number of encouragements to develop the hotel industry. These measures included the granting of financial incentives including loans up to 50 percent of the capital cost or SR 50 million of the total construction cost, hotel licensing and classification, and the sponsoring of Saudi Arabian students for training in the hotel industry abroad. In addition, there was also the formation of the Saudi Hotels and Tourist Resort Corporation, financed jointly by the public and the private sectors (Ministry of Planning, 1980:266). The corporation is responsible for building, leasing and managing hotels, restaurants and rest houses, either independently or in partnership with private companies. Although the hotel chains operate under management contracts, Saudi citizens own and finance most of them.

Since the late 1980s, the hotel and restaurant business has suffered from excess capacity. In the late 1980s, both Jeddah and Riyadh hotel averaged capacity utilisation rates of about 65 percent and Dammam less than 50 percent (National Center for Finance and Economic Information, 1991:94). By 1997, there were 351 hotels – 30 de luxe, 75 first class, 148 second class and 98 third class (SAMA, 1998:179). Riyadh has the strongest hotel demand due to the location of the ministries and corporate head office, followed by Jeddah that has a strong business demand and transiting pilgrims for Mekkah and Medina.

4.5.3.2. The Banking Sector.

There has been considerable development in Saudi private banking and finance over the last 20 years. The commercial banks (their activities include traditional banking, brokerage activity, bond dealing, insurance, leasing), together with SAMA, effectively constitute the heart of the Saudi Arabian financial system (IMF, 1998:43). There are now 11 commercial banks operating in Saudi Arabia. Three of these are wholly Saudi owned (National Commercial Bank and Riyadh Bank Ltd.) whilst the rest have foreign partners (originally branches of major international banks until the Saudiisation of the banks).

Table 4.23: Ownership Structure of Saudi Banks.

National Commercial Bank (NCB)	Saudi Government (PIF) (50%) Saudi nationals (50% - about 40% for the members of the Bin Mahfouz and Kaaki family)[31]
Riyad Bank	Saudi Government (28%) Saudi Private Sector (72%)
Saudi American Bank[32]	Citibank (30%) Saudi nationals (70%)
Saudi British Bank	HSBC Holdings (40%) Saudi national (60%)
Al-Rajhi Banking and Investment Company	Four brothers of Al-Rajhi family and 132 other founding shareholders (about 75%). Other Saudi national (43%)
Arab National Bank	Arab Bank of Jordan (60%) Saudi nationals(40%)
Al-Bank Al-Saudi Al-Fransi	Banque Indosuez (31%) Saudi nationals (69%)
United Saudi Bank	United Bank of Pakistan (10%) Bank Melli Iran (10%) Saudi state-owned funds (10%) Saudi nationals (70% - including 40% by Prince Walid ibn Talal Al-Saud)
Saudi Hollandi Bank	ABN-Amro (40%) Saudi nationals (60%)
Saudi Investment Bank	Chase Manhattan Overseas Banking Corporation (7.5%) Industrial Bank of Japan (2.5%) J Henry Schroder Wagg (London – 25%) Saudi shareholders (87.5%)
Bank Al-Jazira	National Bank of Pakistan (6%) Saudi Nationals (94%)

Source: Wilson (1998:230), (except for National Commercial Bank (Meed, 11/6/1999:25).

The total assets of the commercial banks equaled US$ 99 billion at the end of 1996 (Wilson, 1998:231). Wilson further noted that the size of the individual banks varies across a wide range. NCB is the biggest with US$ 23,050 million in assets and US$

[31] Khalid Bin Mahfouz is estimated to have a stake of no more than 10 percent. Members of his immediate family retain about 30 percent (Meed, 11/6/1999:25).

[32] It was announced in early 1999 that Saudi American Bank is to merge with United Saudi Bank. These two banks merged with effect from July 1999.

2,077 million equity. The smallest is Bank Al-Jazira, which had assets of US$ 1,123 million and equity of US$ 14 million.

As with other sectors of the economy, the banking sector has followed the changes in the Saudi economy (Wilson, 1998:227-228; NCB Economist, March/April 1999:1). During the 1970s and early 1980s (the boom years) there was a high inflow of oil-dollars. This resulted in high rates of economic growth and channeling of wealth into private businesses and households, which meant increases in demand for banking and financial products. The banks were able to earn healthy returns on out of non-interest bearing accounts and were shielded from foreign competition (NCB Economist, March/April 1999:1). From the mid-1980s (during a recession due to the fall in oil prices) the banks went through a difficult period as a result of many creditors not being able to honour their debt. Wilson (1998:228) noted that:

> "When the oil prices are low, and government revenues correspondingly reduced, government contracts and payments are delayed, forcing the banks to restrict credit to weaker customers and to make provisions against possible non-payment of debts by those who are reliant on government business."

Wilson further added that this link between bank performance and the overall economy will continue, as long as government revenue is the main agent of growth, even with the expansion of private sector activity. Despite this, both Wilson (1998:228) and the IMF (1998:45) mentioned the strengthening of the banking sector. Wilson noted that because of the problems faced by the banks in the mid-1980s, fewer loans were given on identity and more emphasis was placed on proper credit appraisals. In addition, the calibre of senior management was improved. Thus, Wilson concluded that the banks are now able to withstand difficult economic situations better. Along with the banks being financially stronger in the 1990s the banks are playing a greater role in the Saudi economy (IMF, 1998:45), this can be illustrated by the following indications:

- Increased investments in the economy. Due to the increased confidence after the Gulf crises in 1990–1991, the banks have channelled a substantial part of their resources (which was invested abroad previously) into the domestic economy.

In 1990, 53 % of the bank's total assets were invested abroad, whilst in 1997 the figure had fallen to 27 %.

- Increased loans to the private sector. Lending to the domestic private sector increased from 28% of total bank assets in 1990 to 36 % in 1997 and in terms of GDP, from 17% to 25%. This was partly due to the need for increased loans because of the reduction of loans by Saudi credit institutions. It also reflects increased profit opportunities seen by the bank in the Saudi economy because of increased private sector opportunities.
- Increased loans to the government sector. This partly reflects the higher fiscal deficit incurred by the government due to the regional crisis and the fall in oil prices.

In the 1990s, the banks saw a rapid increase in profits. Between 1993 and 1997, bank profits increased by 18 % on average and the return on equity averaged about 17 % (IMF, 1998:47). This increase in profitability was partially due to the large size of non-interest-bearing demand deposits and the cost saving as a result of the technological innovation in the banking system. In 1998 despite the difficult times faced by the Saudi economy, the banks posted impressive financial performances (not least due to their absorption of increased volume of government debt, as the state borrowed to cover its expenditure commitments). As seen before, the good performances were partly due to the protection from international competition and the low cost of deposits. For the ten banks that published the results for 1998[33], the average return on year-end assets approached an impressive 2 % and an average return on year-end equity exceeded 17 % (Meed, 14/5/1999:21). Both figures were an improvement on 1997 figures.

4.5.3.3. Government Encouragement to Private Sector Involvement in the Services.

There has been less emphasis and a less coherent policy by the government to encourage the private sector (Mallakh, 1982:403). As noted by Johany (1986:146) there has been a mix of government policy, which include:

[33] NCB did not publish its full results of 1998.

- laissez-faire - for example, in the Trade Sector, there has been minimal government intervention (such as the restricting of competition from abroad);
- financial incentives - as in the case of the hotel industry; and
- government production - where the size of investment has been too great for the private sector or for national planning purposes.

Thus, unlike the case of agriculture and industry the characteristics of the private involvement in the service sector is not always dependent on government incentives.

Despite this, government aims directed at the private sector can be seen through the development plans. In the first and second Development Plans, emphasis was placed on the quick development and expansion of the service sector (various Development Plans). The Third Development Plan gave more attention to consolidating its organisation and structure. Greater emphasis was placed on raising productivity levels, improving management expertise and increasing the degree of specialisation. In the most recent development plans the private sector will be involved in the many activities currently undertaken by the government. This will lead to an active role of the private sector in the activities of the commercial service sectors, while the government's role will be restricted to regulatory and supervisory function. The Fifth Development Plan (144) put forward certain areas for increased private sector involvement. These include:

- Business services focused on efficiency and productivity improvements.
- Financial industry diversification (leasing companies, .venture capital firms, insurance companies, export banks, etc.).
- Manpower training systems.
- Business, financial and economic information services.
- Operation / maintenance / contract services.
- Domestic tourism development.
- Communications, health-care, transportation and education.

The Sixth Development Plan's (1995:243, 245) objectives for the private sector in the commercial area are two-fold. Firstly, to increase the number of Saudis employed (Saudis constitute only 16.2 % of total employment in the commercial sector) and secondly to increase economic efficiency.

4.6. CONCLUSION.

The nature and the role the private sector is expected to play in the economy have totally been transformed since the early 1970s. After the oil boom where the oil revenue was directed towards the government, the government became the main agent of development. Government policy aimed to redistribute the oil revenue to the private sector to diversify the economy. As a result, the development of the private sector has been very dependent on the government, both in growth rates and in the characteristics of the sector. Through subsidies, licences, and loans the development of the sector has been very much dependent on priorities set out by the Development Plans. The private sector is now the largest contributor of GDP and in the productive arena, it dominates agricultural and manufacturing production, which includes chemicals, building materials, engineering products and metal products. Due to technological advancements and government support in the agricultural sector, Saudi Arabia is now the sixth largest exporter of wheat, and has greatly reduced its agricultural imports (although the government has had to pay a high price for this).

Since the 1990s this trend has changed. Due to the financial problems faced by the government, the private sector is expected to play the main agent for development. The private sector is expected to take the lead in the economy and take over areas previously dominated by the government. As a first step towards Privatisation the government has restructured the telecommunication and electricity sector. The private sector is also expected to play a greater role in employing Saudi citizens. There are indications that the private sector is more mature and 'autonomous' and the link with government expenditure (although it is still there) is weakening and private sector investment in Saudi Arabia has greatly increased after the Gulf war. The Sixth Development Plan (Ministry of Planning, 1995:90) noted that the growing confidence in the economy resulted in the substantial repatriation of the of financial assets held abroad, therefore "private sector liquidity is greater now than ever before."

Still many constraints and challenges for the development of the private sector. Despite the weakening of the link between government expenditure and the private sector's performance, oil revenues is still the driving force behind the economy. There also has to be new and viable opportunities for the private sector to invest the financial assets (mentioned above) into investments in fixed assets with in the country. The Fifth and Sixth Development Plans (Ministry of Planning, 1990:136-7 and 1995:158):

- Lack of commercial financing and underdevelopment of the financial markets;
- Under-utilisation of existing capacity because of the small domestic market and problems related to the development of non-oil exports; and
- High average production costs and the lack of internal and external economies of scale production, in addition to marketing problems.

The next chapter investigates the perceptions of the private sector on the constraints that they face in playing a greater role in the process of economic development.

Chapter Five

Perceptions of the Private Sector on their Role in the Economy and Relationship with the State.

5.1. INTRODUCTION.

As illustrated in previous chapters of the thesis so far, the Saudi Government wishes to see the private sector take the lead in diversification of the economy and development. In the last few years the government has made some moves to liberalise the economy (e.g. from 1992 many of the agricultural subsides have been reduced and domestic prices for water and electricity have gone up (Meed, 15/1/1999:2)). Saudi Arabia's aim to join the World Trade Organisation (WTO) seems to indicate a continued commitment to the liberalisation process. The government has also indicated its intention to privatise certain state owned industries such as the Post, Telegraph & Telephones and the State Electricity Company. Not only is the government aiming to increase the importance of the private sector by liberalising the economy but it also wants for the private sector to play a greater role in providing employment for the private sector through polices such as Saudiisation.

The objective of this chapter is to explore the perceptions of the private sector on a number of issues related to economic liberalisation and the increased role of the private sector. The main sources will be the results of the interviews as well as secondary material. The interviews aimed to investigate some of the topics outlined in the theoretical chapter relation to the private sector development but in the context of Saudi Arabia. For example, the theoretical chapter noted the importance of a conducive business environment for the private sector to flourish. The interviews investigated if the private sector felt that this is the case in Saudi Arabia. The theoretical chapter also noted the greater efficiency of the private sector than the public sector. The interviews explored the issues relating to the efficiency of companies working in Saudi Arabia. The following discussion also intends to analyse the views of the private sector on government policies (such as privatisation, joining the WTO and Saudiisation) and the impact of these on the private sector. Also if these polices are working together to consolidate the position of the private sector as the main agent of development or if certain policies are contradictory.

It is important to note that the questions in the questionnaire were presented in a discussion form, rather than following every question in order. Often the answer of a question led on the to the next question and many of the points that came out were related. Many of the interviewees mentioned similar points when answering different questions. Due to time constraints in some cases the complete questionnaire was not completed. The following discussion also includes points made by individuals with whom formal interviews were not conducted[1]. As a result the findings of the interviews will be discussed by topic and will not be divided into the responses of the individual questions. When discussing the points the interviewees that answered the questions will be mentioned.

5.2. GENERAL ISSUES RELATED TO PRIVATE SECTOR DEVELOPMENT.

This section deals with the general points raised by the interviews about the growth and the development of the private sector. It firstly discusses why the government is promoting the private sector to take the lead role in the economy. It then looks at the views of the private sector on their ability to take the lead within economy and the increase in the strength and independence of the private sector.

[1] Permission was taken to include these points in the following discussion.

5.2.1. THE GOVERNMENT'S MOTIVATION IN PROMOTING THE PRIVATE SECTOR TO TAKE THE LEAD IN THE ECONOMY.

It is very important to look behind the motivations of why the government wants the private sector to take the lead in economic development. If the private sector is not strong and mature enough to take the lead in the economy, then questions of whether the private sector is ready to act as the main agent of growth have to be asked. One of the assumptions for rolling back the state is that there is a capable private sector in place to replace the government. Thus one of the major roles of the International Finance Corporation (IFC) is to strengthen the role of the private sector in cases when they are not able to take up the challenge. This leads to the next question of whether the private sector is ready to play the lead role in economic development.

Nearly all of the interviewees (eight[2] out of the nine) who raised this point, felt that the government is liberalising the economy and encouraging the private sector to take the lead in the economy due to financial problems rather than its faith in the ability of the private sector. They felt that it is a response to the government's dependence on oil, the slump in oil prices and due to the budgetary and financial problems faced by the government. This view can be illustrated from the following points made in the interviews:

- Interviewees G, L and O mentioned that the government talks about privatisation due to the budget deficit and that if the oil prices were high and the government was in a good financial situation then there would be little talk of privatisation.

- Interviewee B noted that there has been continually increasing economic burdens on the government due to falling oil prices and the rapid growth of the population. He went to say that it was difficult for the government to continue with the burden of free health care, education, etc. Therefore the government wants to gradually implement a policy so that there will be less dependence on government by removing subsidies and that the government wants people to

[2] Interviewees - B, C (i & iii), F, G, M, N, O. This was not a question in the interview, thus apart from the ones mentioned above the others did not mention this point.

depend on the income of their jobs. The government would play a role in large-scale projects and in some areas of infrastructure.

- Interviewee C(i) placed a different emphasis on the reasons for the pressure felt by the government. He mentioned that it was due to the poor planning and spending by the government with its oil wealth and that large amounts were invested very quickly and with huge waste[3]. He concluded by saying that now the government is behind in its payments there is no other option but to let the private sector to take the lead in the economy and that it is out of necessity.

Only one of the interviewees (C(ii)) felt that the government has done what it has had to do, for example, build infrastructure and now it is time for the private sector to take the lead in the economy. Others also shared this view i.e. that it is time for the private sector to take a greater role and they feel that there is a greater role for them in the economy. They do not feel that this is the government's motivation.

The Fifth Development Plan (1990:40,135) inferred a similar view as interviewee C(ii). It noted that during the period of the Fourth Development Plan (1985–1990) the private sector emerged from the difficulties in a positive position and as a result it can play a greater role in the economy. This can be illustrated by the following quote from the Fifth Development Plan (1990:40):

> "... the private sector has demonstrated its willingness and capacity to take on a wider range of economic activities and development responsibilities that are compatible with commercial principles. In the Fifth Plan period, therefore, the private sector will be able to take over, on a commercial basis, many of the services provided by the government."

To conclude, the general feeling of the interviewees who talked about this subject felt that the private sector is being proposed by the government to be the main agent of development. They feel this is due to the difficulties faced by the government as a result of low oil prices. The general feeling of the interviewees was that the private sector could have played a larger role earlier in certain areas and this would have also helped with their development. It was only when the oil prices started falling that the government started promoting the private sector.

5.2.2. THE ABILITY OF THE PRIVATE SECTOR TO LEAD ECONOMIC DEVELOPMENT.

If the private sector is going to be the main agent of development it is important to look at the capabilities of the private sector. The majority of the interviewees felt that at present neither the private sector nor the environment is not ready for the private sector to take the lead.

Out of the 23 people who answered this question only three interviewees (H, M and N)[4] felt:

- that the private sector is capable of taking the lead in the economy;
- that the private sector does not need the support of the government; and
- the business environment is ready for private sector development.

Interviewee H stated:

> "It has taken time for the private sector to be established but now they are ready to take on the role to develop itself and develop the economy and as the private sector takes more projects, the more it will develop ideas and will become more professional."

Interviewee M suggested that the Saudi private sector has all the business inputs required such as money and expertise (either bought or home grown). But he felt that they have never been given the chance or the opportunity to show their capabilities. Although these three interviewees noted that the private sector is ready to take the lead in the economy and the time is right for this to happen, they later

[3] Interviewee C(i) also noted that Kuwait managed its oil money more wisely and left funds for future investment.

[4] Indeed the interview by H reflected the fact that the company had developed, had become independent and had become self sufficient from the early 1970. This point and case study will be discussed later. Although interview N mentioned the private sector is ready to take the lead, he later mentioned that the private sector is like a little boy wanting to hold the governments hand and that the Saudi Businessman is not entrepreneurial in nature.

added in response to other questions that there are constraints in the business environment. Interviewee H said that companies have to deal with numerous rules and regulations in all aspects of business which has to be changed. Interviewee N, on the other hand (when I asked the question about whether the infrastructure is adequately provided) pointed out that the main problems were linked to the legal and educational system and bureaucracy. Later in the interviews they did express their doubts of the business system these two interviews were far more positive about the private sector's capability and the business environment. The interviews indicated that despite some concerns expressed above, they felt that the capabilities and the business environment was sufficient to allow the private sector to take the lead in the economy.

The rest of the interviews indicated that the private sector is not ready to play the lead in economy. This group was divided into two, i.e. those who felt that the private sector is not capable enough and those who felt the environment is not ready[5]. Some of the reasons suggested for the lack of capability of the private sector include:

- The private sector still needs gain experience by performing and then the private sector will develop and grow[6]. Interviewee S gave the examples of decision making and infrastructure as areas where the private sector still needs to gain experience. He noted that the private sector is not used to being involved in decision making regarding the national economy. This is very important if it is going to play a greater role. Interviewee S went on to say that the private sector is more ready to get involved than the government is ready to relinquish control and power. In the case of infrastructure interviewee S felt that this is an area that the private sector should get more involved in, as they gain the benefits from this area whilst they do not pay any taxes for their provision. But for the private

[5] The difference between this group and the two interviews mentioned above was that they felt that the business environment/systems were so poor that they would not allow the private sector to take the lead in the economy. Whilst interviewees H, M & N suggested in their interviews that despite problems the private sector will still be able to take the lead.

[6] Mentioned by interviewee S. A similar point mentioned by Interviewee H, who also noted that with greater responsibilities and experience the private sector will become more competent. The difference in the views of these two interviewees is that interviewee H felt that the private sector was in a position to take the lead whilst interviewee S did not.

sector to be involved in infrastructure (either in the production or the payment of it) would need a change in the culture of the private sector.

- The private sector still needs the support of the government[7] and therefore is not ready to take the lead. Interviewee K and D(ii) mentioned that the private sector is still dependent on the government spending especially as the government plays the most important role in the market place. Also that the private sector has no choice in playing the role that they have been playing so far[8]. Interviewee T suggested that the private sector is still not independent, as they are still reliant on outside sources for technology, or for the development of technology. In other words, the private sector is still reliant on foreign partners[9].

- The private sector is spoilt and that it will take them many years to catch up and to reach their full potential. This was noted interviewee C(i) whose tone was far more critical of the private sector than the other interviewees. He continued by saying that the private sector is smart and they can take the lead but they want to exploit their protected situation for longer, especially from foreign competition and without protection the private sector will not survive. He gave the following example to illustrate this point: when companies apply for SIDF loans many inflate the amount required in the feasibility study, so that the loan will cover all the money required for the project rather than just a share. The SIDF do not check the applications well enough. In this way some private sector companies are abusing a system developed to encourage its growth. Interviewee S mentioned a similar point - that a section of the private sector is resisting the changes, although he felt that there is more resistance to the change from the lower and middle levels of the government than the private sector as a whole. Although, interviewees S and I are conscious of the fact that the private sector

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[7] This point was mentioned by A, B, C(i), D(i&ii), I, K, L, S & T.

[8] Interviewee A mentioned a similar point: that the lack of development was as a result of the fact that it was expected that the government would purchase the private sector's products.

[9] Interviewee T did note that this situation has improved from the 1970. This point was only noted by T, other in different parts of the interviews mentioned that if the private sector have greatly improved in their technological capabilities. If the private sector cannot produce the technology than they can buy it. The debate on foreign partners is discussed later in this chapter

has to respond positively to the reduced role of the government and less protection[10]. As Interviewee I pointed out:

> "One of the greatest challenges faced by Saudi Arabia is that the government has to learn to let go and it is very important for the private sector to allow the government to let go and to stop relying on protectionism. If the private sector allowed the government to do this then the capability of the private sector would greatly improve."

The point that the private sector can resist economic liberalisation is consistent with the wider literature. For example, Cragg (1996:6) noted that in the case of India one third of the private sector seems resistant to the privatisation and liberalisation wave that started in 1990s. The businesses that were resisting were those who depended on winning licenses and those protected by high tariff barriers, rather than those whose businesses depend on genuine trading (Cragg, 1996:8-9). Ayubi (1992:52) noted a similar point for the Middle East:

> "Although always pushing for increased privatisation, the business community may not be necessarily opt either for full economic liberalization or for ultimate autonomy from the State. To start with, its members will always ask for as much State subsidy, protection and support as possible."

- The private sector is not ready yet as they are not up-to-date with managerial tools; as a result it still has low productivity[11]. Interviewee E mentioned that the private sector's poor productivity is due to the fact that they do not change and adapt to the economic climate. He mentioned that in his experience in dealing with private sector companies he has seen many companies whose revenues have not increased in the last ten years, whose expenses have gone up and therefore their profits are shrinking but very few of them restructure or down size. Areas of poor management include poor planning, organising, controlling, reporting and above all a lack of accountability. Interviewee L mentioned the fact that in

[10] Chaudhry (1992:160-161) noted that the Saudi government tried to liberalise prices following the recession of the 1980 but "the Saudi private sector first blocked hose liberalization policies that affected them and then successfully lobbies the government to implement a series of privatisation and protective measures resulting in new and expanded state guarantee of private profit." Chaudhry (1992:163) concluded that the Saudi case shows the private sector in not always in favour of markets.

[11] D(i), E, L & S mentioned this.

some companies on the stock market the management is producing very poor results – in profits as well as stock price. Despite this the board of directors does not change.

The second group felt that the private sector was ready to take the lead in development but government regulations, the business environment and system makes it impossible for the private sector to be able to take the lead in the economy[12]. The general feeling of this group was that many of the challenges still faced for the private sector to take the lead in the economy are challenges for the government. Some of the reasons given for a poor business environment for the private sector to work in include:

- Poor infrastructure – this included physical infrastructure as well as the legal system and education.
- A high degree of bureaucracy and red tape that is faced when doing business.
- Poor government regulation, especially in areas such as commercial deals and regulation for industry. Other areas are highly over regulated.
- The political situation is not conducive, as interviewee O mentioned:

> 'Royalty and patronage takes away from this assumption and the culture required for sustainable development. They are limiting factors.'

- Lack of direction from the government. This view is well summarised by interviewee F:

> "The private sector has proved to be important and essential. The government is pushing the private sector to take this lead role. Before the private sector was pushing to take a major role but the government suppressed this – so the private sector was mainly in retail. Now the government is pushing. Perhaps now the government is pushing too much and too quickly. Now the government is pushing the private sector in to non-profitable sectors

[12] The interviewee's that expressed this view were C (ii &iii) F, G, J, O, P, R & U.
In answering this question L , M & T also mentioned that Government regulation and political and administrative systems are not conducive to private sector development. But the difference between L, M & T and this group is that they did not feel that the private sector were in a position to lead the economy and Interviewee M felt that there was no way of knowing if they were ready.

> and imposing policies such as Saudiisation...The private sector looks to make a long-term profit. The government is not yet clear on how the private sector can fulfil this and take the lead in economic development...So time is needed to make the correct balance – on how to take the role of the lead in the economy. The government is making many announcements but the implementation is not possible. The government has to think from both sides. The private sector are there, they have the interest – they just need the right system and the procedures to be in place."

Interviewee O[13] expressed a similar view - that it was difficult for the private sector to restructure, re-organise and adapt to the challenges that they face when they do not know what is expected of them. They are still waiting for direction from the government.

As noted in the theoretical chapter, for successful private sector development both a strong and capable private sector is required, as well the right business environment (such as an adequate infrastructure and legal system, a high standard of a work force, etc., which is generally the role of the government to provide). It is for these two reasons that the majority of the interviewees felt that the private sector is not ready to take the lead in the economy. Firstly, ten of the interviewees felt that the private sector needs to gain experience and strength in its own capability in order to play a greater role in the economy. Some of the interviewees pointed out that the private sector could have played a greater role in certain areas of the economy, which would have helped develop their capabilities but in many cases they have been blocked by government agencies. As noted by interviewee K "The private sector has no choice in playing the role that they have been playing." Indeed some of the interviewees mentioned that there are areas that the private sector have wanted to move into but they have been blocked by the government or by government agencies[14]. Interviewee J gave an example to illustrate the fact that there are many areas open for the private sector to develop. For example, in certain areas there is no sewage system in place and the private sector want to move in. In this way the private sector will benefit, the people will benefit and the government will benefit. Also when it comes to economic liberalisation it is not always only the bureaucracy that tries to resist change to protect its position. Often it is the private sector that has

[13] In a phone conversation on the 26th of Sept. 1998, Interviewee E also mentioned a similar point
[14] Interviewees C, G, J & R mentioned this point.

been protected that also tries to resist. Thus it is also important for the private sector to allow the government to let go[15]. Secondly, the business environment is crucial for the efficiency of the private sector. This is all the more important if it is an open economy or if the company has to compete internationally. Nine of the interviewees felt that the business environment was so poor that it was the main hindrance to the private sector playing a greater role in the economy and increasing their level of investments. Section 5.3 will go into further details in these areas as all these factors affect the efficiency of private companies.

5.2.3. THE GAINS IN INDEPENDENCE OF THE PRIVATE SECTOR.

Despite the view expressed above, that the private sector is not ready to take the lead in the economy, there was general feeling that the private sector has gained some strength and independence, especially since the Gulf War[16]. This point is also expressed in Chapter 4 as a result of reviewing the literature and using economic indicators. Previously the private sector's growth and characteristics very much depended on government expenditure, but since the Gulf War despite the lower oil prices and budget cuts the private sector has shown higher rates of growth than other sectors. This view was expressed directly by four of the interviewees[17]. There was a feeling that the private sector has been through many changes in the 1990s, especially as a result of the recession. Interviewee D(ii) noted that after the last recession the private sector realised that the government cannot be the only wealth provider. Whilst interviewee B mentioned that the Saudi private sector stood up to the last economic downturn and as a result much of the "dead wood" was removed[18]. In other words, many of the non-competitive or non-efficient companies are no longer in business. Many of the companies that did survive had to restructure to cope with the recession. In this way the private sector was strengthened. He gave an

[15] Interviewee's C(i), I, N & S mentioned this point.

[16] Section 5.2.2. dealt more with the long-term capabilities of the private sector whilst this section looks at the recent in independence from government spending and a recent assessment of the private sector.

[17] Interviewees K, H, S & U.

[18] A similar point was made in the Fifth Development Plan (1990:39) of the Fourth Development Plan period. "The slow down in the economic activity during the Fourth Plan years induced a rapid restructuring of the economy, as envisaged in the Plan. This, in turn, resulted in a stronger, more diversified private sector that is less dependant on government expenditure."

example of luxury cars. Where previously it was very easy to sell these products without any promotion and there was a long waiting list for these products. This is not the case any longer. As the result of the last recession, there is little room for inefficiency. But the independence of the private sector has only gone so far. Interviewee B went on to say that if the recession had continued for 3 years, then the private sector would not have been able to cope. Five of the interviewees also indicated a similar view that without government spending after a while both the private sector and rest of the economy would be paralysed[19]. Interviewee R saw this as an indication of the failure of the government to diversify the economy.

The increased strength and independence of the private sector can also be seen by its views on subsidies and government contracts. Although most interviewees felt that subsidies are still important, they feel that their importance has been reduced[20]. The majority also mentioned that they feel subsidises should be removed (for reasons such as they make companies inefficient or that it is inevitable due Saudi Arabia joining the WTO). This will be discussed in detail in the relevant sections. Some of the interviewees mentioned above felt that the subsidies relevant for their companies were more indirect[21] (such as subsidised electricity, water, land, low oil prices and SIDF loans[22]), whilst historically their companies also used to take advantage of direct subsidies. Interviewees B and F gave the following example - that due to subsidies and loans in agriculture and agricultural equipment their families went into these areas as well as other non-traditional farmers. Now that the subsidies have gone down in this area the agricultural equipment companies have had to merge with other plants and companies to survive. This example also illustrates how government loans and subsidies also affected the direction and the resulting nature of the private sector. This point was also mentioned by interviewee I, who said that:

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[19] Interviewees F, G, J, K, Q & R.

[20] This was mentioned by A, B, C, D, G, H, I, L, R & S.

[21] Although indirect subsidies can still be important.

[22] The SIDF provides long term loans for up to 50 percent of the cost of a given project. Another form of indirect subsidy is the fact that there is very little tax in Saudi Arabia. Saudi companies and Saudi partners in joint ventures only incur the *Zakkat (EIU – ILT, 1998:29)*. There is no personal income tax. "*Zakkat* is levied at the rate of 1/40 or 2.5 percent of the utilised capital, excluding that which is invested in fixed assets (real property) or in long term investments" (Nader and Alameldin, 1994:83). L and O also mentioned the fact that SABIC gets cheaper feedstock as a subsidy.

> "Subsidies were very important historically. The private sector looked at where the subsidies were and then the private sector went into the area where the subsidies were. The government said lets industrialise – so everyone went into industry because that where the subsidies were. All the products were also bought. There was a belief that industry should drive development in Saudi Arabia."

The interviews also indicated that the private sector now relies less on the government sector than it used to. This can be illustrated by the following example from interview H:

> "Contractors were given preference over foreign companies for contracts, without this preference they could not have established their companies. There were many incentives to construction, agriculture and industry – it was vital. The government developed industrial cities like Yanboo with cheep land, etc. The main benefits were–
>
> - Saudis got contracts even if they were not the lowest price.
> - There was an advance payment of 20 percent. This was very important, as this was often enough to establish the company, buy the raw materials and perform a large chunk of the project.
>
> Now if you get a contract – which there are fewer of – then you have to borrow money. Now profits are lower. The main subsidies are soft loans, industrial estates, customs duties, etc. These subsidies are more indirect."

(As mentioned before, there are many aspects of interview H that indicated that real achievements have been made since the 1970s in the companies linked with the interviewee. Not only did he indicate less reliance on subsidies and contracts but also less dependence on the foreign partner. He mentioned that with time Saudi businessmen have learnt the managerial side and now they can buy the technology. He also mentioned for his companies that the management and structures of his companies were very much in place[23].)

Although as pointed out by L, P and R there is still a substantial group of the private sector that still depend on government contracts, especially those linked with

[23] H was one of the few interviewees who had this view on management. Although this is not the consensus, it was used in this example to show the strength and development illustrated by this interviewee.

construction, operation and maintenance and servicing[24] some of the interviewees said that they try to avoid government contracts[25]. Interviewee I also mentioned that government contracts are now minor in importance for their companies but they were good to build business from. He also said that there is not that much money in government contracts these days. Interviewee E, I, R and S also mentioned that many companies avoid government contracts due to late payments. Interviewees D(i&ii) noted that due to the fact that government contracts are not as important, their company is looking for more projects overseas.

5.2.4. CONCLUSION.

When the government wants the private sector to take the lead in the economy or during a process of economic liberalisation when the state is being rolled back, there needs to be a strong, independent and efficient private sector in place. Thus much of the work of the World Bank and the IFC is based around strengthening the private sector[26]. The general perceptions of the interviewees are that the capabilities of the private sector have to be strengthened before it can take the lead in the economy and the business environment has to be improved. Many of the interviewees also recognised the central role still played by oil revenue to drive the economy and the private sector, which also indicated a failure by the government to diversify the economy. The level of development of the private sector is a result of government policy.

Many of the interviewees felt the private sector is taking up the challenge and have started to restructure and to re-organise to compete internationally. Also some of the dead wood in the private sector has been removed as a result of the last recession.

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[24] The companies which traditionally bid for O&M contracts include Binladin, Owaidah, Qahtani, Oger, etc.

[25] Mentioned by C, E, I, J and L.

[26] Shirley (1988:40) outlined the main ways in which the World Bank and affiliated organisations help strengthen the private sector's contribution to economic growth. Firstly, through lending to assist private sector investments. Secondly, lending to public sector agencies and policies to enhance the agencies' efficiency and effectiveness for services needed by the private sector. Thirdly, encouraging the private and public sector to adopt a framework conducive to private risk-taking, innovation, economically rational decision making, and resource allocation. Fourthly, through co-financing activities, bringing additional private funds to developing economies.

This section also argued that the private sector has gained in strength and independence from the government. Despite this improvement in the ability for the private sector to stand on their own two feet, there is still a reliance on the government and the independence has only gone so far. As noted by Interviewee B if the recession continued then the private sector would not have been able to stand up to the recession. The private sector is still dependant on the government subsidies (even if indirect) and support, spending and in some areas contracts. Also mentioned, as a form of protectionism is the phenomenon of agencies, the Saudi companies are the sole agents and distributors[27]. The foreign partner profits as they gain access to the Saudi market and the government through the Saudi partner. Due to the fact that agencies are often sole agents and distributors they can often set monopolistic prices. Interviewee J gave the following example: "If you call IBM in Saudi Arabia you will see that they set their own prices. It is much cheaper if you have a credit card to buy a an IBM over the phone from America and get it delivered." It was also mentioned that not only is it possible to charge higher prices but also this allows the possibilities of greater inefficiencies and often the service of cars etc is of a bad standard, and electronics are much worse in quality[28].

As outlined in the theoretical chapter, successful private sector development also counts on certain aspects provided by the state, i.e. an effective bureaucracy, adequate infrastructure, legal and regulation system. When answering the question, if the private sector is ready to take the lead in the economy, 9 interviewees mentioned the private sector is not ready due to problems in these areas. Although later in the interviews when I asked specifically about areas such as the provision of infrastructure the legal and educational system, etc the responses were far more negative. When asking the question if the private sector is ready to take the lead in the economy, only three responded with a yes. The rest felt either the private sector is not mature enough or the environment is not ready for private sector development.

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[27] F, I, J and N mentioned this.

[28] This was mentioned by the head of a Trans-national Corporation. Thus due to his postings in other parts of the world meant that he could make the comparison.

5.3. ISSUES RELATING TO EFFICIENCY IN THE SAUDI ARABIAN PRIVATE SECTOR.

One of the main assumptions used to promote private sector development is that the private sector is more efficient than the government. This efficiency stems from the fact that the private sector is motivated by profit and operates as efficiently as possible to reduce costs and maximise profits. State owned enterprises might have many more aims, such as wealth distribution. The reasons for the international communities' faith in the private sector's ability to be the engine of growth can be illustrated by the following quotes:

> "The private sector is a profit-maximising, opportunity-seeking economic agent that responds to market and regulatory signals and endeavours to be technically and managerially be efficient to the extent necessary to compete." The American Chamber of Commerce in Egypt (1996:30).
>
> "Private sector development contributes to poverty reduction in two ways. Firstly, it enhances competitive forces and competitiveness, which produces growth and jobs. Second the divestiture of activities that the private sector can do as well or better, it allows the governments to reduce waste and gain the fiscal space needed for greater investment in the social sector and infrastructure." Jean-Francois Rischard (World Bank, 1995:ix).

Thus, as can be seen by the above quote, the private sector is perceived to be able to produce goods and services more competitively.

This section attempts to question areas affecting efficiency. It will focus on two main areas – firstly, the management capabilities of the private sector and secondly, the business environment in which the private sector has to work. When discussing or asking questions about efficiency the following points were used from Walters (1989:24), who noted that the following three points were all aspects of efficiency:

> " – an increase in output from existing inputs;
> – a reduction in inputs required to produce existing outputs; or
> – an improvement in the quality of output, including reduced waiting lists, or some combination of all three."

5.3.1. GREATER EFFICIENCY OF THE PRIVATE SECTOR COMPARED TO THE PUBLIC SECTOR.

All of the interviewees who made a comparison between the levels of efficiency between state organisations and the private sector felt that the private sector was the more efficient of the two[29]. Even some of the interviewees (such G) who did not mention this point directly, indicated a similar sentiment when he mentioned that privatisation does not necessarily mean increased efficiency but for that to happen the government should leave the private sector to run the businesses in their way. Thus indicating that the private sector is more efficient than the state (a similar point to that made by interviewee H).

Although interviewee C(i) pointed out that the private sector is only slightly more efficient than the government. Interviewee H mentioned the reason that the private sector is more efficient is due to the fact that it is smaller and easier to control. Also within the private sector, efficiency and success is measured by profit, whilst the government has wider objectives e.g. the state owned enterprises (SOEs) are huge and are not measured on performance. He went on to say that as a result if SOEs are just transferred to the private sector then their efficiency will not automatically change – because they will still have to abide by the same rules and regulations of the government. The government will have to remove these obstacles when they are privatised.

These views of greater efficiency in the private sector are consistent with the wider literature. Walter (1988:24) reviewed the large amount of literature comparing the relative efficiency of private and public ownership and noted the main forms of evidence to show that the private sector is more efficient include:

> " – before and after privatisation (or nationalisation studies of particular industries);
> – cross-section comparisons of public and private corporations in the same business; and
> – studies of management techniques."

[29] The interviewees who had this view included B, C(i, ii & iii), D, F, H, I, J, K, P, R, S & U.

Privatisation is often included in adjustment programmes as a result of the greater efficiency of the private sector. Anderson and Martinez (1998:182) made the same conclusion of greater efficiency in privately owned enterprises but also noted that not all public enterprises are inefficient loss makers[30]. They went on to note that some of the reasons for low efficiency and high losses in the public sector include:

> "price controls, overstaffing, patronage, lack of competition, lack of capital, and inflexible and bureaucratic civil service rules and procedures."

5.3.2. THE EFFICIENCY OF THE SAUDI PRIVATE SECTOR COMPARED TO INTERNATIONAL STANDARDS.

Eight of the nine interviewees who discussed this point felt that the private sector is not yet globally competitive[31], despite the fact that they have improved their efficiency[32]. Interviewee R mentioned that there are less than ten internationally competitive companies and these are generally those linked to trans-national corporations, such as Abdul Latife Jamile. Interviewee S expressed the view that despite the Saudi private sector not being internationally competitive, they are more competitive than other Arab and Gulf Countries. This point is especially important when considering the opening of the economy through Saudi Arabia joining the WTO, when international companies will gain access to the Saudi Market. Only interviewee T felt that the Saudi private sector is globally efficient and competitive and that they have proved themselves by being involved in international projects (and not just as a capital investor). He illustrated this point with the example of BinLaden who have won contracts all around the world and the air conditioning side of Zamil who have won contracts in China.

Interviewee M who has experience in many different countries through his organisation suggested that the reason for lower efficiency in Saudi Arabia was due

[30] A study conducted by Abdel-Rehman and Ali (1989:162-3) on the private and public sector in Egypt also noted the better performance of the private sector.
[31] Interviewees C(i), D, E, F, I, M, U, R & S, mentioned this point.

to the nature of the market. The interviewee said that it was very easy as a result. There was not much need to promote the products and businesses could be inefficient and still have a high degree of sales. He gave the examples of two luxury goods[33] products and mentioned that they have higher penetration of market ownership in Saudi Arabia than in Europe or even America[34].

5.3.3. VARIATIONS OF EFFICIENCY WITH IN THE PRIVATE SECTOR.

The interviews indicated that efficiency within the private sector varies on many factors. The factors effecting efficiency includes:

- If the sector is dependant on subsidies and protection or not. The areas still dependant on protection and subsidies such as agriculture continue to be inefficient. Many pointed out that subsidies continue to support the area rather than nurturing it until the sector is capable of supporting itself. As a result these companies do not mature and gain efficiency[35]. The example cited by all eight was the agricultural sector, which was continually mentioned as being highly inefficient due to the protectionism and the subsidies. N and P also felt that tariffs and SIDF loans protect some forms of manufacturing and industry[36]. P also mentioned that areas with little competition such as oil and gas fields (such as ARAMCO) are also inefficient. This point was disagreed by interviewees such as C (i, ii and iii), I, K and L.

  All of the nine interviewees above mentioned that subsidies could not continue indefinitely for these inefficient sectors, such as agriculture and should be removed, as with subsides these sectors will never become efficient. Interviewee O mentioned it was a waste of money and it would be better it the money went

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[32] As outlined in section 6.2.3., which noted that as a result of the recession after the Gulf war, some companies restructured to survive the down torn in the recession.
[33] For video recorders and televisions.
[34] Interviewee S mentioned a similar point. Interviewee B also mentioned a similar point but felt that that there was not much room for inefficiency in the present market.
[35] This was mentioned by C (i), E, G, J, I, M, N, P and S.
[36] Tariffs for most goods are either 12 percent. Or 20 percent in IS industries and where there is substantial local production of goods.

elsewhere – such as improving the educational system or infrastructure. Interviewee G felt that to improve efficiency not only is it important to remove protection but it was also necessary to allow foreign companies in ".... so that foreign companies had someone to compare standards with."

C (i, ii and iii) mentioned that agricultural subsidies no longer benefit the Bedouin people (as they go to large wealthy farmers not traditional farmers) and nor are they flexible once an area reaches maturity[37]. Thus neither are the subsidies fulfilling their social aims or establishing self-sufficient new industries. Rather they are creating inefficient companies' dependant on government handouts for their survival.

- If the company competes in the international market. This is a similar point to the one above with the lack of subsidies and protectionism. Interviewee L mentioned that due to the fact his company has to work on the international scale and due to the nature of his business, that none of the subsidies benefited his company – that they have had to be internationally efficient[38].

- The size of the company[39]. Four interviewees mentioned that small companies do not have to worry about management systems and economic planning. This view is well illustrated by the following quote by interviewee G:

> "The private sector is efficient up to a certain size. They cannot be seen as the private sector but seen as merchants (i.e. smaller in size). The merchant tends to have perfect knowledge of their product, market, etc and this is what they respond to. A wholesaler of fruit in the market knows how the price moves during the day and he responds. As he grows he employs more people and he becomes less in touch. He has no management skills to run a company. There is excessive authority, etc. and then the company declines. It starts of as very dynamic and then the companies grows and then declines – and then new ones develop."

Interviewees A, E and K maintained that when companies are large and are very profitable, then there is a greater tendency towards inefficiency. A gave

[37] Theses two points will be discussed later under the section of regulation.
[38] I and N also mentioned this point.

examples of some large companies that work like a bureaucracy and interviewee K said banks are inefficient as they have large deposits and very few payments to make. They mentioned that it was easy for companies to flourish but still be inefficient due to the fact that it is easy for some companies to make money because of no taxation, the ability to get loans easily, lack of competition, etc. Also as mentioned by M was that it is easy to sell luxury products without doing any promotion and that could mean that companies did not grow through being competitive and efficient.

5.3.4. PROBLEMS OF THE PRIVATE SECTOR LINKED WITH MANAGEMENT CAPABILITIES.

Interviewees F and J mentioned there is a small number of companies which are highly sophisticated and highly developed in their management capabilities and techniques, but this is a small minority in Saudi Arabia. Seven of the interviewees felt that management was a big problem with in Saudi companies[40]. Interviewee M mentioned that if his company was being run in the same way in Europe or in the US it would not survive. He also mentioned that for some of the agencies based in Saudi Arabia, the waiting times for repairs is much longer (often for a very simple exercise) and the quality is often below standard[41].

Some of the points that were mentioned when talking about these issues included:

- Saudi Businesses are traditional in nature;
- Saudi companies do not look at the long term goals and strategies, they look to the short term;

[39] This point was mentioned by A, E, G and K.

[40] Abdel-Rehman and Ali (1989:163) noted that the business sector in Egypt faced four types of problems including internal factors, factors related to the banking system; general economic policies; and external factors. The internal problems were divided into two groups. Firstly, causes before operations, which included lack of effective feasibility studies, unbalanced financial structure (a high debt/equity ratio), excessive high capital costs of some projects, inexperienced entrepreneurs and wrong choice of production technology. Secondly, causes during operations: lack of managerial efficiency, high percentage of losses and waste, lack of quality control resulting accumulation of stocks and consequently problems of liquidity, very high labour costs and inefficient marketing.

[41] He mentioned this for agencies such as Mercedes.

- The private sector does not look at the business and the process as a whole. When they are thinking of going into a new area or investing in a new venture, they do not look at if it will add to their other companies or what they can add to the venture. The businessman just looks at every new opportunity to be a profit-making venture without looking at the finer points. Another example of this was given by E, who mentioned that a firm might get a very good foreign treasurer but if the treasury is not up to scratch then it is of very little use[42];
- The companies are slow to change, they have poor planning and very few of them conduct feasibility studies, there are also no proper recruitment systems;
- There is a lack of accountability with in the companies. Interviewee O noted that one of the important areas to gain efficiency is that people have to be accountable at every level and they have to keep focused on the goals set. As mentioned above planning and the setting of the goals is weak but also when the desired results are not obtained no one is accountable for them. As noted previously, interviewee L mentioned that in some companies on the stock market the management is producing very poor results but despite this the board of directors does not change[43];
- The Saudi businessman is not entrepreneurial in nature- there is still a trading and agency based mentality and not a manufacturing one, management has not matured. Interviewee N who mentioned this followed up by saying that it is important to develop this entrepreneurial spirit and it could not be done is such a structured and rigid system; and
- The private sector has poor auditors offices and financial statements and reports. In addition, interviewee E felt that the external auditors could cut costs by 60 percent but no one questions the private sector. The government do not regulate or monitor the companies. Often the large projects are one man shows so there is much room for inefficiency.

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[42] E mentioned that Saudi companies often hire foreign consultants whose performance in many cases is low. M mentioned a similar point that Saudi Arabia often do not get the best expatriates – even at managerial levels. From DCs, Saudi Arabia gets second or third rate managers. From LDCs they provide the whole range between managers to labourers. The managers generally come from India, Egypt and also Jordan and Lebanon, these are generally not the best people compared to international standards.

[43] Al-Malik (1989:427, cited in Garawi and Schmidt (1996:88)) also noted that one of the greatest problem faced by executives is a lack of accountability.

Some of the interviewees such as E and L mentioned that management in Saudi companies was improving with time and through greater education but not keeping up to international standards.

Having established efficiency in the private sector did vary the interviewees suggested some of the reasons. Some of the other reasons have already been outlined (such as protection, loans, the easy business environment etc.) contribute to a lack of managerial development. Another factor attributed to inefficiency is again that businessmen, their companies and their success is often not due to entrepreneurial capability but rather as a result of other factors. Interviewees I, J, L and N mentioned the links with agencies and interviewee K and Q with the royal families. This can be illustrated by the following quote from the interview of K:

> "The major and successful members of the private sector have made it because of government largess – contracts, connections, etc. The trick is when some one is rising in the private sector is to see who is behind it. For example, two families in the Eastern Province became very quite and they grew very quickly. This is because of their close links with the government and with the Governor of the Province. You always have to look at the name behind the name. The question is why don't the princes do it themselves – because they are not successful that way."

C(i) also mentioned that each area has certain well established families that are well known, so people who look to do business in these areas will continue to go to them. Thus, once a name has been built up either through its links with agencies, the royal family or the government, it builds up momentum and continues to grow.

Examples were also given for outside factors that influences efficiency. Interviewee E noted problems linked with the supplier[44]: "The major problem is the speed of change of the supplier. A company can be ready for change but the suppliers are not ready – they are not using up to date technology." Interviewee N gave the example of local Saudi banks, which have a social responsibility and cannot close branches in villages even if they are unprofitable because of the government. Foreign banks

[44] Soufi and Mayer (1991:53) gave some examples of problems linked to suppliers, one of them was: "a manager of an eau-de-cologne factor said that locally manufactured bottles were not of a sufficient

have an advantage (such as SAMBA) who do not have this responsibility. Finally, interviewee J talked about the fact that in Saudi Arabia often people are employed as favours and in return for favours and not because there is a job or the are the right person for the job.

5.3.5. THE IMPACT OF FAMILY BUSINESSES ON EFFICIENCY.

Family business is currently the subject of much debate in Saudi Arabia. As many of the top private companies are family businesses their performance and their continuity affects the national economy. Interviewee P mentioned that the topic of family businesses and succession is one of the most important challenges facing companies and most companies are not responding. Also as noted by Meed (12/6/98:30) as some of Saudi Arabia largest companies are family owned and as the founders of many of the leading local businesses are now heading for retirement. All of the interviewees who answered this question[45] felt this is an area that can cause difficulty for some family owned businesses, especially in the third and fourth generation.

As mentioned by seven of the interviewees[46], there are many advantages of being a family business. Firstly, there is no interference and the family have the freedom to do what they want. Also, family members are more highly motivated when it is their company and people as a result work harder. Despite this, a large proportion of the interviewees noted areas of concern relating to family businesses. This next section will focus on some of the problems related to family businesses that were illustrated in the interviews.

Some of the areas that might affect family owned businesses and therefore will effect the running and the efficiency of these companies, include:

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clarity; therefor, the factory had to import bottles from France, despite a 20 percent tariff." This would therefore add to the cost of production.

[45] All expect interviewees D (i&ii) and V.

[46] B, H, F, G, P, R & S

- If the family is large or small[47]. Interviewee B mentioned that his family is lucky as they are not so large and so they do not face some of these problems. If there are many children then they can often pull the company apart, especially in the third or fourth generation and as you cannot get rid of an inefficient brother. Interviewee F gave the following example to illustrate the point:

  > "When there are many brothers, normally one is the major worker, many may not be suitable or capable, so they destroy the business. The non-capable brother wants to be a major decision-maker, money does not satisfy him, and he wants to take the top position. Some have poor work ethic and large egos. There is the example of one leading family business that was torn up due to family rifts. They were the largest money exchangers and they wanted to move in to banking. 4 very close brothers ran it, with 30 sons and daughters below them. They had become too big to be money changers so they had to become a bank and be regulated by SAMA. The family pushed the government to make it into a bank. They sold 40 percent to the public and kept 60 percent between the brothers. Within one year they all became enemies because of their kids. The kids started to complain that uncle was giving his cousin a better position than he had. It turned into a real bomb."

  M mentioned that other important issues are the levels of education between the sons and if they all share the same mother.

- If the father has left a succession plan[48]. If this is not done and there are many children, who see different directions for the company, then this can be disastrous, especially in later generations with cousins. A similar view was expressed by Kanoo (1996a:15), in one of three articles he wrote on issues affecting family businesses in the Arab News:

  > "A leader should establish a succession plan acceptable to the family and thus maintain the continuity of a strong family business. Not to have a succession plan and to suddenly die, will create such turmoil and in-fighting within the family, that the business will be running around like a chicken with out a head."

[47] This was mentioned by B, E, F, M and N
[48] Mentioned by E, O & R.

- The owner does not know how to develop his children. It is important for the fathers to develop their children as good managers with an understanding of the company and the business culture[49]. Often the founder has not delegated enough and when the son inherits the business, he does not have the experience to run it.

- The owners start loosing interest. This would be very detrimental if the next generation are not ready to take over[50].

- The management of the company is separated from ownership. Personal relationships are very important in Saudi business culture – the owner listens to advisers who do not develop with the times and who are sometimes yes men[51]. Often when the son takes over he replaces his fathers advisers with his own men. Interviewee I, O, N, P and R felt that is why it is important to separate ownership and management. O mentioned this as especially important if the son who is meant to take over (e.g. the oldest son) is not the most capable. P felt one of the reasons that his family is successful is due to separating family and management. However when interviewing N, who works for the same group, he mentioned that there was a major problem with the son (who is in his mid-20s) being in charge and making decisions without any experience in the field.

- The issue of women[52]. Women are not involved in the business but when the husband dies the wife inherits 20-30 percent and affects business decisions. She is a major influence in the family and in decision-making. But she does not have the education and the experience.

A study of family businesses (London Business School, 1989:9) in Europe also found there were problems linked due to the type of business:

> "As with the firms' strengths the weaknesses are not unique to family firms but family firms are particularly vulnerable to these failings. Family companies can become tradition bound and

[49] Mentioned by A and E
[50] For more information on the father – son relationship see Kanoo (1996c:12).
[51] Mentioned by E, I and O.
[52] K – who as a consultant in restructuring and reorganising family companies saw this as a repeated problem, mentioned this.

unwilling to change. In a family business change not only has the usual commercial risks but it can also involve upsetting practices established by relatives. This is often interpreted as a lack of respect for earlier generations and the image of the family business man as the distant autocrat more interested in family traditions than the market place is common."

The study went on to note that the most common failure for family firms is the unwilling to respond to change.

5.3.5.1. Possible solutions to deal with the challenges of family businesses.

To try and deal with many of these problems that can often have disastrous effects on companies, there has been much talk about family companies going public. Interviewee I and S mentioned that going public is an escape clause for those who no longer want to be in the family business without breaking up the multi-million dollar company, as they can sell their shares to other family members. Interviewee C(iii) mentioned that this was an important trend as it provided investment opportunities. Interviewee I mentioned that for the future of the private sector it is important for them to have strategic mergers and when they are big enough to compete internationally then they should go public. Kanoo (1996b:15) noted:

> "Usually, as the generations evolve from second into third or the fourth, the family business reaches a cross-road. The second generation having known the founder will more or less carry on his vision. However, the vision will become weaker during the third and fourth generations. Conditions will have changed, the family will have grown, the market place will be different, customers' tastes will have shifted and new management practices will have been used. If the family company is successful... and the head of the family will be able to maintain the parallel desires of maintaining a profitable business operation with keeping family loyalty. Otherwise it is natural for the younger ones to think of an alternative structure[53]."

[53] In the article Kanoo talks about the advantages and disadvantages of going public and how a family business can go public.

In early May 1998, the Al-Zamil Group announced that it has combined the areas of air-conditioning, steel buildings and glass operation and has applied for a license to the commerce ministry for a closed joint stock company[54]. This is the first step for them to go public in two years time. Meed (2nd June 1998:40/41) quoted Mohammed Al-Zamil as saying:

> "Al-Zamil contends that going public will guarantee the continuation of the groups activities after the families second generation departs. He also argues that by accepting new partners, the company will be in a stronger position to compete regionally and globally, especially in the current climate of international mergers and acquisitions. With a larger capital, the company will be able to step up investments in training of the national workforce, the introduction of new technology and marketing that in turn can only benefit its export sales. 'I believe turning these activities into a public company with wider ownership is a positive step towards expansion.'"

Another example is that of the Fitaihi Company (a jewellery maker and retailer which was converted into a SR 200 million closed joint stock company (Meed, 31 July1998:3) and National Commercial bank (NCB), which widened its ownership to twenty investors (announced on 1st April 1997, Arab News 2 April:2). Two years on, Arab News (10th January 1999:2) reported that the shares of the bank would be traded in the Saudi stock market starting from July. The newspaper also reported that the ownership of the bank was shared by 22 individuals. Gazzaz Company, a leading perfume and cosmetics retailer has announced that it aims to convert the family business to a closed joint stock company, in an aim to make the company public (Meed, 19th February 1999:30)[55].

Despite this, many of the interviewees mentioned that they would not consider going public as their first option due to the feeling that they would be loosing something[56].

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[54] The Al-Zamil family will still own 60 percent. The remaining equity ($80million) will be divided between local and GCC investor, which are all blue-chip names: Gulf Investment Corporation (Kuwait), Juma al-Majid Group (UAE), Al-Moayyed Group and Mohammed Jallal Group (Bahrain), Al-Mannai Group and Qatar Insurance Company (Qatar). From Saudi Arabia: Olayan Group, Bin Mahfouz Group, Al-Turki Group, Kanoo Group, Al-Muhaidib Group and Saudi British Bank.

[55] Meed (19th Feb.1999:30) shares will be divided between the family. Interviewee E mentioned that as a result closed joint stock companies will make very little difference in the improvement of business.

[56] An article in the Arab News (11/1/99:2) said that 25 percent of Jeddah family businesses are converting to joint stock company. This would contradict the view of the interviewees. The article

When interviewee R suggested to an owner of a family business that they go public he replied that the family could run the business better as the have all the experience in this area. Interviewee S felt that going public was not the only solution for family businesses. If the business had a set plan on how the business is meant to be run, either at the hands of a capable family member or through separating the management from the family, then going public might not be necessary. Interviewees B and F who have agencies said due to the nature of their business it impossible to go public. As interviewee F noted "you can't go public with Rolls Royce[57]". And interviewee B said "Going public is not a major issue for our companies, although they have gone public with a few of their companies. But they can't go public with the rest of their companies, as they are agencies so we have made deals and contracts with international companies. If they go public they have to renegotiate the contracts which they might looses." Interviewees N and P mentioned that government regulation does not encourage companies to go public. Interviewee P gave the example that companies have to show a 10 per cent profit for five years before it can apply to go public[58]. There is also the issue of restructuring the company before it can be converted to a joint stock company, as noted be Michael Porter of Swicorp who are the financial advisers (Meed, 31st July 1998:3):

> "There are a lot of [Saudi] companies of a good size, making $20 million - $100 million profit but there is a lot of re-organisation to do before they get to the stage they can approach the capital market."

went on to quote sources at the Jeddah Chamber of Commerce, which expects that the process of the conversion would be completed by the end of the year.

[57] Interviewee F is not the agent of Rolls Royce but he just used it as an example.

[58] In January 1999 the Minister of Commerce Osama Faqeeh announced that major clauses have been modified to the process of converting to a joint stock company – which has made the process easier. Meed (29th January 1999:22) noted that the original regulations were issued in 1997, and these were greeted with dismay as many in the business sector thought that they were too restrictive. Some of the changes made include:

- companies applying for conversion must have assets of more than SR 50 million, rather than SR 75 million;
- the company must have a "substantial level" of profitability in the year preceding its application (before the company needed a return on equity of not less than 10 percent for the previous five years;
- 40 percent of the company's shares must be offered (previously it was 51 percent); and
- three years of audited balance sheets need to be provided with the application (as opposed to five).

For more details see Meed (29th January 1999:22) and Arab News (Monday 11th January: 2).

5.3.6. THE BENEFITS OF FOREIGN PARTNERS.

On the whole, most of the interviewees were favourable towards foreign partners. When questioned on the benefits, responses fell into three groups:

1. Those who see many benefits from foreign partners, including gains in efficiency[59]. The Saudi partner gains efficiency and good management from the partnership. Other benefits notes were brand loyalty, production, marketing, technology transfer etc. Interviewee H, who felt that foreign partners are not as important, mentioned one area that they are crucial in is implementing projects and setting up systems. The interviewees that promoted foreign partners the most were interviewees B and G whose business depends on agencies. The following quote comes from interviewee G:

   > "This criticism is a mistake[60]. It is more efficient to have a partner than recreating the wheel. We have the distribution rights for the GCC – so we are not only skilled in Saudi Arabia. The MNC acquire and distribute from Saudi Arabia and we buy from our foreign partner. There are also other benefits. We have a plant in Yanboo. There was a major catastrophe – we had the experts in from our partner in the next day. So our agencies are our partners and our allies. It is important to keep up the reputation of these companies – they have good management practices."

   Interviewee F, J, O and S who also saw benefits through foreign partners, felt that in many cases the Saudi partner was not taking full advantage of the foreign partner. As mentioned by interviewee F:

   > "Foreign partners can be an excellent alliance if you utilise them as the Japanese of the Koreans do, but I don't feel that this is being done. The Saudi partners are not benefiting. The Japanese went to the international companies and made alliances to start production, to use their technology, etc. They made the product under the name of the MNC. But they only have a limited contract, for 5 years or so. After the agreement is over they still work under the MNC until they develop the know-how and gain experience. And then they develop from there and so that don't have to start right

[59] These include A, B, C (i & ii), F, G, H, O, R & T.

[60] We were discussing the point that many had criticised agencies as every thing was being done by the foreign partner and the fact they were not developing.

> from the beginning and catch up on all the previous work. The Saudi partners don't do that – they just get the money but not the technical know-how. They give the MNC a link to the Saudi market and the government. The MNC can leave in 5 years time and leave the Saudi partners with nothing."

Interviewees B, I and N mentioned that with globalisation, these strategic alliances will become more important as brand names are very important in doing business.

2. Those who see Saudi companies as more capable but still see a role for foreign partners[61]. They mentioned that often the technology can be bought and therefore they are less important in that aspect. Interviewee O noted the areas they cover and do not depend on foreign partners include sales, all financial aspects, human resources and inventory. And interviewee H mentioned that: "In the management of companies Saudis are often more cost effective than foreigners."

3. Those who feel that the foreign partners are just in Saudi Arabia for their own benefit and add very little[62]. This was only felt by a minority of the interviewees. Interviewee L gave example to illustrate a bad experience that they have had with foreign partners:

> "Many people (foreign joint venture companies) just want to make a profit. Many frauds come to Saudi Arabia. Many Saudi partners make contracts and give away all the benefit of the contract i.e. some Saudis get very little out of joint venture contracts. A Far Eastern came to us, we made a contract and they changed it at the last minute. We didn't take it because there was not enough for us. You have to do it with due diligence – it goes back to question of good management."

[61] This was mentioned by C(i & ii), H, O & S.
[62] This group included C(ii), L and P.

5.3.7. CONCLUSION.

One of the basic assumptions (as discussed in the theoretical chapter) behind private sector development over state led development is that it is efficient and they can combine number of inputs to get the best possible product or service in the cheapest possible way. As can be seen by this section there are many factors that effect the efficiency of Saudi companies. Firstly, the companies that are highly protected and depend on subsidies tend to be less efficient. The general consensus by the businessmen interviewed is that if these are not removed then these sectors will never become efficient. Seven out of the interviewees mentioned that Saudi companies are not mature in their management capabilities – which again leads to inefficiencies. Thus the inefficiencies of certain areas is another hindrance to the application of private sector development in Saudi Arabia.

It is then important to ask if these companies are inefficient, then how did they become such large multi-million dollar companies? Some of the answers given include the easy business environment, the easy availability of loans and their favourable terms, protectionism and connections with the government (which have been covered in Chapter 4)[63]. Interviewees B and H stressed that despite the problems, the large companies grew to their size as a result of efficiency and good management.

Al-Saleh (1996:v) in the Kingdom's top 100 companies report presented a similar view:

> "These companies have become large not only because of the talents of their founders but also because of the patronage given by our Kingdom by creating for them the climate favorable for healthy growth and offering them the necessary protection to survive and grow...The most important factors that contributed to the growth and development of our private sector to which these top hundred belong were the copious government subsidies they got in the past three decades. Some of them were flexible long-term assistance

[63] Chaudhry (1997:153) highlighted certain factor that which made the business environment conducive for the private sector: "First, they [international companies] had to hire local sponsors for everything from selling goods and services to submitting bids for government projects, to performing contracts in construction, maintenance, and consulting, to opening agencies. The result was to insert Saudi middlemen into all economic transactions.

and loans for investments on very convenient terms... In some areas, soft government loans and assistance reached as high as 70%. Contracting companies and real estate establishments reaped unprecedented profits. Ample opportunities, with low cost fuel and electricity supply and with negligible fees and without any tax at all, gave the private sector such a thrust to the fore that they could develop and diversify their infrastructure and capital base, opening up new avenues for expansion and competition in local and regional level.

One of the major problems most of these companies have to face is from their families. This is a common feature of the Gulf economy but seldom found in advanced countries. Many of these family-controlled companies were established in recent years and shot into prominence after the boom in the seventies. These family companies own vast assets, have large sales and provide thousands of employment opportunities and expand their activities to almost all fields of business. This is the reason why their success or failure affects the entire national economy more than they affect themselves. That is why the family companies must stand on a firm foundation that would help them to surmount any future challenge.

Most of the family companies do not possess the survival instinct when compared to the limited or joint companies. The family companies have the same simple rules governing the individual establishments. Continuity of these companies largely depends on the head or the founder of this family or on his son after him...It is high time that we introduced certain rules that would ensure the stability and continuity of family companies even after the death of the founders of these companies. They may be converted as limited joint-stock family companies or public joint stock-companies. This is what happened to family-owned companies like Ford, Daimler Benz and Honda at the beginning of this century."

5.4 THE BUSINESS ENVIRONMENT AND THE NEEDS OF THE PRIVATE SECTOR.

As outlined in the theoretical chapter, successful private sector development requires a conducive business environment, which should be provided by the government. Thus, although with economic liberalisation there is a reduced role for the government than before, it still plays a very critical role and therefore there is a need for strong and effective government. As summarised by the World Bank (1989:vii)[64]:

> "Private sector development requires three main elements:
> - a supportive (or 'enabling') business environment consisiting of a stable macroeconomic setting, economic incentives that promote efficient resourse allocation by the private sector, and laws and regulations that protect the public interest but do not necessarly interfere with private initiative
> - the services in infrastructure and human resource development necessary to permit private sector enterprises to function efficiently
> - a financial system that provides the incentives and institutions needed to mobilise the allocate financial resources efficiently."

This section of the chapter aims to investigate if these needs are met.

5.4.1. THE MACRO BUSINESS CLIMATE.

On the positive side of the environment, many of the interviewees had noted earlier in the chapter that the business environment was favourable due to the many opportunities available, conducive loans and the high degree of liquidity in the Saudi market. Some of the interviewees mentioned that the government has worked hard to keep inflation low. In addition, seven of the interviewees felt that the government is also working hard to promote bilateral trade agreements[65]. Interviewee I noted "The Government is pushing hard to develop a favourable climate, for example the trade agreement with Iran. It is therefore important for the private sector to produce products that sell and provide customer satisfaction." There are many references to the positive side of these political and trade delegation this in the secondary literature. An article in the Arab News (24/8/98:2) outlined that five Saudi delegations will embark on visits to several countries in Europe, Asia and Latin America. Businessmen were invited to join in an aim to find new markets for Saudi products. Meed (27/11/98:22) wrote about an "ambitious" six-week tour undertaken by Crown Prince Abdullah, which covered the UK, France, US, Japan, South Korea,

[64] A similar view is expressed in The World Bank (1995:4-6) report on Private Sector Development in Jordan.
[65] Interviewees K, G, I, J, S, T and U.

China and Pakistan. Meed went on to say that encouraging trade and investment was one of the main aims of Crown Prince Abdullah's tour.

Despite these favourable aspects the interviews outlined aspects which are holding back the private sector. Interviewees G, I, N and O mentioned that the government is not looking at the economy as a whole and when it comes to planning it does not look at competitive advantage as a basis to sustainable development. Interviewee I pointed out that the planners have to look at the global comparative advantage of the country and then develop industry (or restructure) along these lines. He gave the example of copper smelting which would be ideal for Saudi Arabia as it needs a lot of energy. The interviewee also suggested that there was no point just developing industry for the sake of it through import substitution.

Interviewee O expressed a great deal of frustration when he talked about planning:

> "We are always late on macroeconomic policy, for example we do not have a Free Trade Zone, as many of our competitors do. If we are always behind then we will lose our competitive advantage. The government does not have the basic business vision. The government says they want to liberalise the economy but the foreign investment law is outdated, which is not conducive to attracting foreign investment. They all go to Jebel Ali where 100 percent equity is allowed. The government wants to get Saudis into the employment pool and this is not happening. The education system is not suited to the needs of the private sector, the private sector will need to change and be more involved in training but they need the prerequisites for that. For example if you want an accountant - you can train him but he needs the basic skills and knowledge, this is not happening. And works ethics are a big problem. The levers are not with the private sector but with the government."

Interviewees G and I mentioned a similar point when they referred to the fact that although the government talked about economic liberalisation. However, before this can happen the government needs a coherent revenue strategy. For this to be in place the government will have to tax as the government will need to have a variety of income sources. Chaudhry (1997:164-167) noted that the direct tax system that was in place before the oil boom was removed due to its nature as the distributive state. By the end 1970s the Department of Zakat and income Tax (DZIT) was not capable of collecting the tax as lacked the institutional and organisational ability. Chaudhry went on to say that although by the time of the boom, taxes were a small percentage of government revenue, this loss was a significant one as it meant a loss in information about the society that the distributive state ruled[66].

Interviewee S stressed in his interview that the main barriers to development is the culture that developed over the last twenty-five years, as a result of the oil boom. For example, before the 1970 it was possible to see a Saudis in manual labour but not after the boom, especially in the cities. Before the boom the links between the private sector and the government were stronger as the government was less affluent and as a result they would look at the private sector more. Interviewee S gave the example of the first university in Jeddah, which was a joint collaboration between the government and the private sector. As a result of the boom the government became more inward looking. The interviewee concluded by saying that as a result of the present crisis attitudes are changing but not fast enough.

Interviewee G indicated a similar sentiment that it will take time for change due to the tribal culture. He gave an example of a promotion of the Ministry of Information, which was called "Saudi Arabia: Progress without Change". The interviewee then asked how it is possible to tap the potential of manpower when 60 – 70 percent of the education system is based on religion. It is therefore important for the government and planners to learn how to add value and to see the whole picture.

5.4.2. THE EDUCATION SYSTEM.

On a macro level, education and qualified manpower is critical for the process of economic development. Knight (1990:60-61) argued that lack of these two factors is the crucial constraint in the development of sub-Saharan Africa. When it comes to the need of the private sector the American Chamber of Commerce in Egypt (1994:12) noted that the scarcity of skilled human resources (at working and

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[66] See chapter 2, where examples are cited from Chaudhry on the private sector blocking the introduction of certain taxes.

managerial level) is a major constraint to the private sector. The paper went on to say that this scarcity is due to an education system that does not cater to the need of the labour market. This section aims to explore the views of the private sector on the Saudi education system and if it caters to their needs.

When describing the education system, some of the words used to describe it include "disaster" and "a major handicap". Almost all of the interviewees mentioned that there are serious failings in the system[67]. Interviewees G and O felt that if the educational problem were not improved soon, then as a result Saudi Arabia would become more and more backwards. Improvement of the educational system was seen as even more important now due to the policy of Saudiisation, which will be dealt with in greater details later in section 6.4.4. Some of the criticisms that were continually mentioned include[68]:

- The education system is backward and outdated. Interviewees D, P and S mentioned that some students couldn't even read, write and communicate after they leave school and K mentioned the some couldn't spell in Arabic. In addition, very few have computer skills. The system of rote learning also means that the system does not produce free thinkers with a strong work ethics[69].

- The education system does not meet the needs of the of the business sector[70]. Many felt that there was not enough emphasis on technical and vocational courses in University. Whilst Interviewees I and O mentioned that there was not enough emphasis on research and development.

- The system does not cater to the needs of the private sector. Five of the interviewees felt that the emphasis of the educational system was too focussed on religion[71]. Interviewee J expanded by saying that this is a problem now because they have different views and ethics to the private sector and previously they could be employed as *mutawawi'a,* in Mosques or sent overseas to teach

[67] This includes interviewees A, B, C(i), D E, F, G, H, I, J, L, M, O, P, R, S and T.
[68] The only institution that was repeatedly complimented was the King Fahd University for Petroleum and Minerals.
[69] Mentioned by D, I, H, K, L, N, O, P and S.
[70] This was mentioned by interviewees A, C(i), D, K, N.

Islam. With the lower oil prices and with the emphasis on private sector to increase employment the system has to fit their need of the main employers.

Interviewee K noted that the question of education goes deeper and into the nature of the society:

> "The education system has to change – some can't even spell in Arabic. The method of schooling is totally obsolete, it discourages innovation... The view of education depends on how religious you are. The fundamentalists will approve of the existing methods - teaching the Koran is most important aim of the system as education should produce for the needs of the whole society and not only that of the private sector. This is not being done. Other want to change to the need of the private sector – these are the secularists. The final requirement from the system should not only be to work in the private sector but also cover all aspects and facets of the society they are in. These requirements are not being met."

As mentioned by interviewee A, as a result of the deficiencies of the educational system the private sector has to spend a lot of time and money on re-training graduates. This in turn effects profits and efficiency. It is therefore very important for the educational process to adapt to the needs of the requirement of the economy (and society) as a whole as well the private sector.

Similar points were outlined in a report prepared by Saudi Development and Training Company (1996) and can be seen from the quotes below[72]:

> "Most employers seek good standards of literacy, numeracy, an appreciation of technology and a foreign language capability, usually English. Numeracy and English tend to be the problem areas – these are what the private sector runs on." (p12)

> "There is a perception, often murmured about but only recently surfaced in the Majlis as Shura, that the Saudi education system does not fit candidates too well in to work. Streaming takes place in the majority of Saudi schools into literary and scientific streams... the vast bulk of students follow these two routes with a tendency of the majority to follow the Literary Section...Whereas

[71] Said by L, D, G, J and K.

[72] In the introduction, the Saudi Development and Training Company noted that his observations were made from the organisations contact with a client base of over two hundred companies and a marketing contact base of over four thousand organisations within Saudi Arabia.

> English and Arabic appears in the scientific syllabus that some corresponding form of Mathematics or Technology does not appear in the literary section certificate...Not only the syllabi cause employers concern, the general methodology of teaching that favours imitation and rote learning as against experimentation or empiricism is also perceived as a difficulty – mainly because many of the employers find difficulty in subsequently putting into operation the knowledge that they have acquired in school. It is not that Saudis do not learn English. It is generally taught as a dead language. Saudi student do learn English but in many cases they do not have the strategies to operationalise and use what they have learnt." (p15-6)

Osama (1987:133) illustrated the imbalance created by the education system by the fact that very few graduates specialised in technical fields. Nearly half of the graduates are specialised in Arabic and Islamic 'Sharia' law and nearly 70 percent of the graduates studies humanities or social sciences.

5.4.3. THE LEGAL SYSTEM.

The importance of the legal framework to the private sector can be seen from the following quote (Anderson and Martinez, 1998:191):

> "An effective legal framework lowers transaction costs by establishing the basis of property rights and providing a mechanism for contract enforcement and dispute resolution."

The legal system in Saudi Arabia is based on *shari'a* or Islamic law based on the Qu'ran and on the sunnah (the deeds, utterances, and the unspoken approvals of the Prophet Mohammed) (Turck, 1998:415). Several secular codes have been introduced for commercial activity such as distributorship agreements, company laws and government contracts. These are subject to 'Regulations' and 'Implementing Rules', which are decreed or issued by the Council of Ministers and the various government ministries. Turck (1998:416) further mentioned that apart from *shari'a* courts, commercial disputes can be handled by special committees such as the Board of Grievances, SAMA's Committee for Banking Disputes or the Commission for Labour Disputes. Although as noted by Al-Hejailan (1998:6-7):

> "The jurisdiction of the commercial courts in Saudi Arabia is not yet well defined. Sometimes commercial cases are presented to the Board of Grievances in a rather narrow application of the term 'commercial', and sometimes to the Saria Court which has very broad jurisdiction."

This was another area that the majority of the interviewees felt was not suited to the needs of the business community and requires some changes[73]. Twenty-one of the interviewees talked about the legal system, twenty said that the legal system was a hindrance to the private sector. Interviewee H was the only one to mention that there was no problem for Saudis to deal with the legal system and that there are many very educated Saudi lawyers working in companies and in the courts. He did mention however, that *shari'a* is difficult for foreigners to understand. The legal system needs the tools for the private sector to function effectively for the protection of property as well as the speedy settlement of disputes. The results of the interviewee suggest that these aspects were not met by Saudi system.

Many of the interviewees feel that much is lacking in the commercial codes and that many of them are out of date[74]. For example, interviewee O mentioned that there is a need for laws on ownership. Interviewee F noted that previously, the government provided everything - cash, land, etc. Now, as a result, the regulations needed for businesses are not sufficient[75]. The following examples were taken from the interviewees and areas where regulation is missing.

A large number of the interviewees felt that a more comprehensive set of civil and commercial laws or regulations are needed to protect the interests of a company leasing or lending. Many of the interviewees said that if the buyer reneges then it is difficult to retrieve the money or the product. Interviewee Q mentioned that if the security was there then it will a boost to the economy as people could buy houses, cars, fridges, etc more readily. When discussing this area the subject of selling cars

[73] This was mentioned by interviewees A, B, C(i, ii & iii), D, F, I, J, L, N, O, P, Q, R, S, I and V.

[74] Such as A, B, C(i, ii & iii), D, F, I, J, L, N, O, P, R, S, T and V.

[75] A similar point was made by Anderson and Martinez (1998:191) who noted that much of the existing legislation in the Middle East was developed during a period of control, inwardness and when the government was the main agent for development. The system that developed as a result in mow ill suited for a private sector dominated, open market economy.

was repeatedly used as an example[76]. This point can be illustrated by a quote of a car distributor mentioned in the Arab News (August 13th 1998:2), when talking about selling cars in instalments the distributor said:

> "But it is not very lucrative since the chance of the customer defaulting on payments is high. There is no security for us because official rules requires the transfer of ownership immediately after down payment... if he stops paying we can not do anything. The legal process is to time consuming and produces little results."

Interviewee I told of some cases where, when a person from a rural area needed some money, he would put an instalment on a car and take it back to his village and sell it for a very cheap price – but this would still mean a large profit for him. Interviewee V highlighted that as a result of the laws and the fact that there is no centralised data bank on those who have defaulted payments there is no confidence in lending. Another problem linked to payments by instalments was mentioned by interviewee B, who noted that the interest on loans or instalment payments are paid on a flat balance, rather than declining, thus when buying a car it is more expensive on a flat rate than a declining rate.

Interviewees J, L and T cited that one of the problems for smaller businesses and less well established companies within the private sector was the lack of commercial loans from banks despite good profits[77]. A view was given of the banks as being "greedy" and making money while providing very few services. Interviewees N, P and V noted that this was due to the fact there is no regulation to recover money and the lack of regulation dealing with issues such as bankruptcy. Interviewee P did feel that this situation was getting better with the SAMA Committee for Banking Disputes. He also felt that the *Shuras* are making a difference as they produce good studies, bring up the issues and make good recommendations but the problem is that they are unable to make laws and regulations. Interviewee N also noted that for the

[76] Despite this Wilson (1998:22-23) noted that in Saudi Arabia personal lending is increasing. He gave the example of National Commercial Bank who is offering "a loan by phone scheme which clients purchasing cars find extremely convenient."

[77] Okruhlik (1992:216) noted that banks are fearful to take risks on private sector investment after the enormous losses they suffered during the recession of the 1980s, when some private sector businesses walked away from their debts. As a result banks are extremely cautious whom they lend money to. Okruhlik (1992:216) quoted a loan officer as saying "We only lend money to those who do not need

same reasons the mortgage market was not developed. Interviewee V explained the complex situation for mortgages at present. The process includes the borrower giving the title deed to the bank that then passes the deed to a third party who holds the deed in his name on behalf of the bank. Meed (12th June 1998:30) illustrated a similar point, where it noted "Bankers are already agitating for real security so that they can develop a mortgage market."

Another area where the laws have to be improved and updated are the labour laws[78], which date from 1969 and which cover labour relations, workers and employers rights. According to the interviewees, the regulations make it difficult to fire or to terminate the contracts of Saudi employee, especially at the managerial level. Not only does it take a long time but often disputes end up at the Board of Labour and high amount of money is awarded as compensation. There are also difficulties in firing non-Saudis. The labour laws seem to be extremely restrictive for management. This is illustrated by interviewee M who gave an example of when he tried to fire an employee, as his performance was not adequate:

> "He went to the Pakistani embassy and said that I had fired him for religious reasons[79], the case went to the Ministry of the Interior and there was a case made against me - there was a policeman outside my house constantly. This situation was only cleared up because of the influence of our Saudi Partner. The labour laws do not give managers the freedom to make decisions."

Thus the interviewees indicated that there were many areas where laws have to be changed or introduced to meet the needs of the private sector. A survey conducted by Soufi and Mayer (1991:51) 82 percent of the survey indicated that they see the laws and regulations being counterproductive to encouraging private sector investment in industrial projects, whilst 76 percent felt the they do not protect the interests of industrial firms.

The interviewees also expressed problems linked to dispute resolution. These included:

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it." As a result small businesses are "squeezed in the fray." Wilson (1998:228) noted that in the mid-1980s some of the biggest names in Saudi business were unable or unwilling to pay their debts.

[78] C(i), E, F and M expressed this view.

- Legal procedures take a long time to process[80]. Interviewee P has been fighting a case in the courts for the last fifteen years, with the system hoping that he will just give up. Interviewee V said that the Board of Grievances takes a long time. Business International (1989:22) noted that this is because the emphasis of the courts is because of reconciliation.

- Lack of transparency. Interviewee D felt this was a result of the fact that the laws are not codified. As a result of the lack of transparency it is difficult to judge the outcome of a case. Therefore, contracts with foreign partners are occasionally written under British law. Interviewee P raised the point that he had very little trust in the judgement since it can be influenced. He gave the example of a partner who wanted to sell his share of the company and the other partner had to buy at an price that he thought was very inflated.

- Poor enforcement once the decision has been made[81].

The secondary literature also gives example of the problems faced by the private sector when trying to recover debt. Such as when a judge told a rich man that he could afford to forgive a debt or when there have been longs delays due to a powerful debtor (Business International, 1989:22-4). Or when the SAMA's Committee for Banking Disputes has avoided hearing the cases of a few of the most powerful borrowers, at which many bankers have complained. The article follows by saying, "...but given the way the Saudi system works, its policy is probably wise. It would be difficult to prevail against an important member of the Royal Family and an embarrassment in such a major case would weaken its dealings with others." Al-Hejailan (1998:10-11) outlined the new Anti-Bankruptcy Regulation of 1996. He noted that "The Solutions are both traditional (debt re-scheduling and forgiveness) as well as novel (changes in management and expert assistance)."

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[79] The interviewee is a non-Muslim, non-Saudi.
[80] Interviewees L, P and V.
[81] Interviewees P and V.

Due to the deficiencies of the commercial regulations, the legal system was cited by the interviewees as a major hindrance to private sector development and an area that desperately needs change. As already noted in the theoretical chapter, for successful private sector development enforceable property rights and binding commercial contracts are central. From the interviewees this does not seem to be the case in Saudi Arabia where there is seen to be a great degree of uncertainty and unpredictability. As cited earlier in this section, interviewee H felt that *shari'a* was not a problem for him but it is difficult for foreigners to understand. Interviewees J and N strongly emphasised this point as they felt that *shari'a* is a strong deterrent against foreign investment. Shihata (1996:55) also noted the importance of the legal system, as market mechanisms require "competition in a level playing field". In this way market mechanisms will replace personal relationships and protect those who do not have influence and money ('crony capitalism'). The following section illustrates that many of the interviewees felt that there is not a level playing field within the business arena in Saudi Arabia and that success often depends on influence and contacts.

5.4.4. CRONY CAPITALISM

Different countries have different business cultures that fit into the culture of the country. They were not seen to be a problem. For example, Japan has a different business culture to the United States. In the case of the Middle East, Cunningham and Sarayrah (1993:15) noted that '*wasta*' was a part of society and that most Middle Easterners do not consider it detrimental to the society[82]. One advantage of *wasta* is that it counteracts bureaucracy through removing duplication and delay. Due to the crises in East Asia more importance has been placed on how business is being done as this has been cited as one of the major factors contributing to the crisis. Before this business based on personal contacts were seen to have many

[82] Cunningham and Sarayrah (1993:1-2) defined *wasta* as the "intersection or advocacy to obtain a benefit." This could be cutting though bureaucracy or the wealthy ensuring their continued economic advantage through *wasta*. They noted that: "In urban society, a skill-based prestige system has widened the access to resources, and the wasta game has many players. Anyone with access to

advantages such as bypassing bureaucracy and speeding up a process. One of the key areas blamed was crony capitalism. An example of how crony capitalism effected the crises is cited below:

> "By now the outline of how Asia fell apart is pretty familiar. At least in part, the region's downfall was a punishment for its sins. We all know now what we should have known even during the boom years: that there was a dark underside to 'Asian values,' that the success of too many Asian businessmen depended less on what they knew than whom they knew. Crony capitalism meant, in particular, that dubious investments – unneeded office blocks outside Bangkok, ego driven diversification by South Korean *cheabol* – were cheerfully funded by local banks, as long as the borrower had the right government connections. Even before the crisis, at the when foreign banks were still lending and Indonesia's debt was rated Baa, the façade was beginning to crumble: big Korean companies were going belly up; Thai finance companies were folding. (Krugman, 1998:28)."

The IMF policy regarding East Asia has tried to remove crony capitalism in an attempt to restructure their economies.

The possible consequences of crony capitalism are discussed below[83]:

1. Crony capitalism can lead to inefficient economic outcomes as it impedes and misallocates long-term investment and distorts sectoral priorities and technology choices. This is done as it influences the choices of parties to supply the goods and services and the exact terms of the contract. Cunningham and Sarayah (1993:2,161) noted that *wasta* interventions can impose hidden costs leading to inefficient behaviours.
2. Much time and money is spent on rent-seeking and Directly Unproductive Profit-seeking (DUP). This was one of the main criticisms of ISI, i.e. much time and money is spent on lobbying to secure rent, rather than spent on production and investment.

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resources can practice wasta. However, these new players generally have influence over a narrow sphere; so wasta seekers may have to search widely for someone who can solve heir problem."

[83] These ideas have been developed around corruption but crony capitalism can have similar economic effects. The ideas were developed from papers by Gray and Kaufmann (1998), Mauro (1997).

3. The cost of lobbying is often seen as a extra cost. Murrow (1997) mentioned that this often diminishes the incentive to invest.

The interviews conducted showed some similarities to crony capitalism in Saudi Arabia. As will be seen, personal contact is important for doing business, and the royal family has been important to the growth of certain private sector families. The following section outlines some of the points mentioned by the interviewees that indicate that crony capitalism is present within Saudi Arabia.

- Government tenders tend to be linked to favours and whom you know. Interviewees F, G, I, J, L, M, Q, P, S and T all mentioned that winning government contracts is dependent on contacts and on favours. Interviewees I, J and S felt that this was the case in most countries but to a greater degree in Saudi Arabia, J continued by saying that especially as the pie gets smaller then this process gets more magnified (especially by princes who are looking for a quick profit). Interviewee S disagreed with this and felt less depended on who you know now than it did in the 1970s and 1980s[84]. Interviewee T commented that as the importance of government contracts is diminishing within the economy so is the importance of doing business in this manner. Interviewees F and P mentioned that the small contracts are distributed by open tender but the large important ones are agreed behind closed doors. Interviewee F estimated that over 70 percent of business was done in this way. A similar point was mentioned by Chaudhry (1997:161):

  > "It is widely believed that princes and politically important persons were the main beneficiaries of the sectoral development programmes, and the most colourful examples of instant riches in Saudi Arabia do suggest the importance of personal contacts with the royal family. Yet the size and breadth of the new middle and upper class bespeaks a much broader involvement of the bureaucracy.[85]"

[84] A new Tender Law was introduced in 1977 to place a limit of ten agencies per individual to prevent the excessive concentration of wealth and power in the hands of a few influential princes or tribal notables (Chaudhry, 1997:161).

[85] Chaudhry (1997:161) gave the example of the largest dairy farm in the Kingdom which was owned by Prince Abdullah Al-Faisal (the son of King Faisal) and Prince Sultan bin Mohammed bin Saud Al-Kabir who owned Masstok Saudia, a large agricultural joint venture with an Irish firm.

Out of all the interviewees who talked about this only interviewee B disagreed. He mentioned that the processes of bidding and tendering are transparent, the tenders are open in front of the other bidders and are read out – the cheapest tender will win. Some of the interviewees felt that interviewee B's response was a result of the fact that he was close to the royal family and had another agenda. Interviewee R said that who you know is not only important in winning government contracts but influence is needed even to obtain what you are already entitled to, such as telephone lines. Interviewee R went on to say that bribery is also an important method to obtain services from the public sector e.g. visa's.

- Subsidies go to those who are well connected rather than the poor[86]. Interviewee P expanded by saying that previously there were basic subsidies for the poor, such as tea and sugar. All of the interviewees felt that at the beginning subsidies were introduced to redistribute wealth but the original aims are not being fulfilled. Interviewees C(i) and J thought that this was especially the case for agriculture, as agricultural subsidies intended to redistribute money to poor Bedouin areas, or encourage traditional farmers and to increase the living standards of the poor. They concluded by saying that most of the money has gone to wealthy, well-connected people with large farms[87].

- Members of the royal family act as intermediaries between the private sector and the decision-makers[88]. Two different ways in which the princes are involved were highlighted during the interviews. Interviewees A and F mentioned that if a member of the royal family or a member of the government asks you to do something then you are forced to do it and then you can ask them for favours in return. Interviewee J mentioned that when you are trying to win or develop a project you have to bring a prince in for pulling power. When all the work has been done by the private sector partner then the prince gets a share of the profits. Interviewee J gave the following example: "resort development project – land

[86] Interviewees C(i), J and P.
[87] Chaudhry (1997:183) noted that the agricultural development project created a new landed elite in Saudi Arabia.

was expropriated by a prince and given to an investment group. They built a beautiful resort and sold it for ten times the price. They gave to prince a share of the profit for doing nothing." Interviewee P said that he saw these payments to princes as an extra tax necessary for business.

- The royal family owns large sections of the economy[89]. Interviewee J did mention that there can be some exceptions – he gave an example where a contract was not renewed for a member of the royal family due to poor performance. He went on to say that princes get money easily through land, as they are entitled to land of a certain size. They go to the King and ask for land of a certain size – then they either claim the land or sell it to you. Or they take the land that no one owns and they clear it, then go to the government and make it legal and then sell it[90]. The corruption occurs when the government buys back the land or they sell it to you and then they claim it back – or you find out it belongs to someone else. He noted that this is rare but there are some high profile cases of it.

Interviewees O and P mentioned problems related to the involvement of the royal family:

> "Interference and competition from the royals is one of the main challenges faced by the private sector. They compete in every sector and not as equals. They get better privileges due to their status – it is not fair competition."[91]
>
> "Royalty and patronage takes away from this assumption [private sector development] and the culture required for sustainable development. They are limiting factors. The royal family controls the critical economy. Mega-businesses such as contracting and the port authority see a lot of government and royal family involvement. Big postage couriers are all linked to the royal family and contracting projects often go to them."[92]

[88] El-Ghonemy (1998:115) noted that as financial wealth from petroleum grew so did the powers of the ruling family and their business associates. See El-Ghonemy (1998:115-7) for ways in which the ruling family enriched themselves. Also see Fields (1985).
[89] Interviewees J, M, O and P.
[90] Chaudhry (1997:176-80) mentioned some examples of how people got rich through property.
[91] Mentioned by P.
[92] Mentioned by O.

- Legislation is geared to personal interest[93]. The interviewee said that legislation is often made to increase the importance of a Ministry and can at the same time benefit an individual within the private sector[94]. Chaudhry (1997:161-2) noted that foreign companies developed a dislike of dealing with the royal family members as they could change the laws and regulations to the detriment of the foreign company. Chaudhry went on to say that the links between businessmen and bureaucrats became legal and formal in 1975 when partnerships with civil servants were allowed.

Thus, as interviewee O noted, these examples of crony capitalism take away from technical advances and an achievement oriented culture, which is needed for successful private sector development.

5.4.5. THE FINANCIAL SYSTEM

As seen earlier in this section one of the three main elements needed for private sector development, according to the World Bank, is a financial system that efficiently mobilises and allocates financial resources. Wilson (1998:233) noted that the Saudi financial markets are underdeveloped when taking into consideration the size of its economy and its banking system. This is partly a result of the "historical importance of cash and liquidity in the Saudi financial market, and the fact that until the 1980s the country as a whole funded itself from cash flow reserves...". A lack of developed financial system can have a restrictive effect on both the government and private businesses (Wilson, 1998:35). This view can further be illustrated by the following quote from Al-Dukleit (1995:9):

> "The history of world banking and finance suggests that the financial system has a definite role to play in the economic development of any country. At the heart of most arguments about that role is the relationship between savers and investors. If a

[93] Said by interviewees L and Q.

[94] Interviewee L mentioned that another area which causes problems is when an employee or a middle man pushes through a deal, not because of the good of the company but so that they can get a cut out of the deal. A colleague then went on to say that often the amount mentioned in the deal is inflated so their cut is increased.

> properly developed financial system is lacking, the inevitable resources are not efficiently utilised for the development requirements of the country's economy. Financial intermediaries' bridge this gap bridge this gap by providing incentives to save and by contributing to an increase in the volume and efficiency of investment. However it needs to be recognised that the availability and efficient use of finance are necessary but not sufficient conditions for economic development. They constitute one vital input alongside natural resources, labour, markets, management, technology and entrepreneurial ability."

The government expressed a similar view about the importance of developing investment opportunities, which can be see from the following quote from the Fifth Development Plan (1990:155):

> "The opportunity for individuals to invest their personal savings in productive enterprises in the Kingdom rather than in the international money markets or physical assets, such as land and gold, need to be developed. An important step in this direction was taken in the last two years of the fourth plan with the issuance of government development bonds, thereby promoting both savings and opportunities for investors to increase their participation in the development process."

The Fourth and Fifth development plans both called for the development of the financial system. Wright and Albatel (1996:59) summarised the aims (regarding the financial system) for these two development plans; some of the points mentioned included:

- promoting the incorporation of national financial institutions for the investment of private funds with in the country;
- encouraging private banks to increase their credit facilities to production rather than focusing on import trade;
- encouraging joint-stock companies to carry out more large projects so that a greater number of citizens can benefit form investment opportunities; and
- encouraging the exchange of company shares to encourage investment.

A large majority of the interviewees (thirteen) indicated that the financial system was not developed enough to meet the needs of the private sector[95]. The main areas

[95] Interviewees C(i), F, G, I, J, L, N, O, P, Q, R, S and T.

raised were the problems linked with stock market and a minority talked about the need for increased loans for commercial purposes. Both these areas were outlined by the fourth and fifth development plans as areas that needed improvement.

The lack of commercial loans by the private banks was covered in section 6.4.3. on the legal system[96]. Interviewees J and T felt this way due to the fact that banks mostly lend to a few large corporate clients and to the government, which is very profitable, and as a result they do not feel the need to expand the base. Interviewee J also noted that bank loans are predominantly short term and that there is a need for more sources for long term financing[97]. Interviewees L and T mentioned that the difficulty in obtaining finance was most acute for small and medium companies (which are needed for a healthy economy), as they are not able to apply for government agency loans such as SIDF. One of the main concerns of the Riyadh Chamber of Commerce and Industry for small and medium enterprises is to establish better loan facilities to fend off market competition (Arab News, 16/2/1999:2). The article in the Arab News went on to cite a study conducted by the Riyadh-based Consulting Centre for Finance Investment (CCFI), which found that more than 75 percent of bank loans are channelled to larger enterprises which constitute less than 20 percent of public and private sector establishments. Interviewees F and H felt that there was no problem with access to finance. Interviewee L also noted that other services such as insurance is not adequately provided with in the Kingdom and that he has to look outside the country to meet his business insurance requirements[98].

The area that was most talked about by the interviewees were the problems related to the stock market. Out of the twelve interviewees who talked about the problems related to the stock market, only three were more positive about its role[99]. These included that this is a new way to raise capital or the stock market provides new sources of investment with in Saudi Arabia. Interviewee F and S both mentioned that it was easier to look after investments in Saudi Arabia, as they know about the

[96] Mentioned by interviewees J, L and T.

[97] The EIU (FO 1999:19) noted that the medium and long-term facilities make up a sizeable portion of bank loan assets. However, in numerical term they are far outnumbered by short-term facilities. Long (1997:90) noted that private commercial banks are becoming increasingly important as a source of capital.

[98] For details on the insurance industry in Saudi Arabia and the GCC see The NCB Economist, 1998b.

companies. Despite this all three of them talked about the problems and the need for the development of the stock market and the need for regulation. Other interviewees such as G, J, N and O felt that at present, the stock market plays a very small role in the economy. The problems raised in the interviewees were:

- Few companies are listed on the stock market[100]. This does not give many options for those wanting to invest in the country. Interviewee N noted that there are very few new companies, especially small and medium sized ones. This is linked with the issue of the regulations for going public; interviewees O and P stressed the importance for more companies to go public to provide more investment opportunities.

- Companies are controlled in the hands of a few[101]. Many of the interviewees mentioned that it is the old traditional families/money that own the majority of the shares of the companies on the stock market[102]. When a company is entering the market it is greatly oversubscribed. Therefore it is not encouraging new investors and not tapping into new sources of capital. Interviewee J added that many of the owners just hold the shares and do not trade them[103].

- The stock market is not run professionally[104]. The interviewees suggested different ways in which the market could be manipulated. Interviewee J noted that the board members use their privileged knowledge for their own personal gains, as well as providing inside information to their friends. As Azzam (1997:156) noted:

> " One of the major sources of unfair practises in a stock market is insider trading, i.e. the use of privileged information by insiders (executives, directors, large investors) to trade in the market for their own advantage. Such use of privileged information is illegal in Saudi Arabia as in the United States. However, the enforcement

[99] Interviewees F, L and S.
[100] Interviewees F, G, J, O and P.
[101] Interviewees F, G, I and J.
[102] In 1995 there were no more than 300,000 investor or around 2 percent of the population (Azzam, 1997:154).
[103] The value of shares traded in Saudi Arabia is only 32 percent of market capitalisation, compared to an average of112 percent in other emerging markets (Meed, 12/2/199912).
[104] Interviewees C(i), F, G, J, O L, N, Q and R.

> mechanism in Saudi Arabia is poor. The penalty for such trading is not specified in the regulation. In practice, an offender usually receives a warning for such violations asking him not to do it again."

Interviewee C(i) mentioned that the process of trading is time consuming and not efficient[105]. Seven of the interviewees noted that regulation of the stock market had to improve[106]. Due to the lack of regulation, interviewee O said people with power have made a substantial amounts of money.

- Poor investment opportunity. Interviewees C(i), O and S felt that compared to international stocks, the Saudi stocks do not look very attractive.

Thus, the interviewees felt that there is much to be improved in areas relating to the stock market, especially its regulation. At present it is not an important method for the private sector to raise capital or in involving the public in the ownership of companies.

5.4.6. INFRASTRUCTURE

The adequate provision of infrastructure is crucial for the efficient running of both the private and the public sectors. Often the provision of infrastructure is seen as the role of the state as this is an area where market failure is possible. This is especially true for areas such as ports where there are high fixed costs. The first two development plans focused on the establishment of physical infrastructure that was necessary as a base for production and economic diversification.

Despite the efforts of the government to develop the infrastructure, the interviews conducted indicated that the infrastructure was not at the level that the private sector requires. Indeed, the interviewees expressed a great deal of frustration when talking about the state to the infrastructure. Seventeen of the interviewees talked about the

[105] Wright and Albatel (1996:61) cited the Fifth Development Plan in recognising that the stock exchange mechanism is rather slow and very complicated. Individual stock transactions can take up to two months to complete and often buyers reach sellers by their own means. Wright and Albatel concluded by saying that these obstacle result in the significant gaps between the bids and the asking price, which indicates that the price mechanism is not working.

level of the infrastructure available and all of the mentioned that it was a hindrance and bottleneck to private businesses, especially industry[107]. Many of the interviewees noted that when the government was building the infrastructure they missed out key aspects and the infrastructure they did create is now a huge burden on the economy. The interviewees also commented that continual spending from the government is needed for both the maintenance of infrastructure and for infrastructure to keep up with the demands of the economy, which has not happened due to budgetary problems. Interviewees E, J and N felt that a solution to these problems is to get the private sector involved and that the private sector would be very interested in doing so. Interviewee N expanded by saying that the private sector could get involved in the management of ports and airports through BOT and the telephone and the electricity sectors by BOOT.

These are areas the interviewees felt were the most inadequate:

- Industrial cites[108]. This was possibly the area of most concern. The interviewees noted that there was a shortage in land, water and electricity. Interviewees M and O mentioned that they have their own electricity generators and that more and more plants are doing this. In addition, interviewees H, J and O pointed out that the facilities are not there to deal with sewage and waste, which is often removed by trucks. Due to the lack of land and facilities in the industrial estates, interviewees C (i, ii & iii) considered building their own complex for projects with a desalination plant, but it turned out to be too expensive.

- Telecommunications[109]. Interviewee M felt that the shortage of telephone lines was one of the worst problems. Interviewee O mentioned that in some of his plants there was only one telephone line. Although, interviewees B, O and H mentioned that there have been improvements in the amount of lines provided and that they expect that it will continue to improve. Interviewee G said how it was difficult for one of his offices to contact another during the day and as result

[106] C(i), F, G, L, J, N, O.
[107] B, C (i, ii & iii), E, F, G, H, I, J, L, M, N, O, P, R and S. Out of the interviewees only interviewee H felt that road, airports and rail road were adequately provided, although he did criticise other aspects. The other interviewees did not mention any positive points.
[108] Interviewees C (i, ii & iii), E, F, G, H, I, J, M, N, O, R and S.

there was a problem with IT flows and networking. Interviewees O and R complained about the fact that the internet came in so late into Saudi Arabia, although it was possible to connect through Bahrain which was expensive. Interviewees M and R noted that mobile phones were also introduced last in Saudi Arabia and much of Saudi Arabia is not covered by the network. They also added that despite the cuts in tariffs mobile phones in Saudi Arabia are still the most expensive in the GCC.

- Railways. Interviewees G and J felt that the railways are not adequately developed considering the size of Saudi Arabia.

5.4.7. BUREAUCRACY AND REGULATIONS

Even though the government wants to play a smaller role in the economy it is important for its role to be efficient and effective. A high level of bureaucracy and poor regulations can have a negative effect on the economy; it can deter investment in a country as well as well as being very timely and costly to the private sector. In addition an oversized bureaucracy or civil service can be a financial burden on the government to taxpayers. The NCB Economist (1998a:6) cited a World Bank study that estimated that on average up to 30 percent of an entrepreneur's time is spent resolving problems with regulatory agencies in Arab countries. The American Chamber of Commerce in Egypt (1996:38) noted three principles for efficient administration:

- merit based recruitment and promotion;
- incentive based compensation; and
- competitive career paths with attractive financial rewards.

Seventeen of the interviewees felt that much time, money and efficiency were wasted on bureaucratic matters or complicated and inappropriate regulations[110]. Interviewees J and O felt that bureaucracy has such a negative impact on the economy that if Saudi Arabia did not improve it would fall behind other countries.

[109] Interviewees B, C (i, ii & iii), E, F, G, H, I, J, L, M, N, O, P, R and S.

Interviewees J and O added that one of the causes of the large size of the bureaucracy was a result of the government's policy to hire people for social reasons. As a result this has created a lot of paper work. Interviewee G talked about the importance of bureaucracy being demolished, otherwise it will continue to be a great economic cost and the private sector will remain "shackled" by bureaucracy. Interviewee R mentioned that the level of corruption has increased, as has the need for bribes due to the fact that salaries have not increased. The examples used to illustrate the high levels of bureaucracy and red tape include:

- When establishing companies[111]. The interviewees noted that it takes between three to six months just to establish a company. The procedures are seen as being very tedious as the private sector have to deal with a number of ministries, such as the Ministry of Commerce and the Ministry of Industry, which all need different paper work. Interviewee J compared this with UAE where a company can be established over the phone. Interviewee O said that one of the main reasons for investing overseas was the high level of bureaucracy and red tape in Saudi Arabia.

- When applying for licenses[112]. This is another example of a long process that can take up to six months with no guarantee that the license will be given. Interviewee C(i) said that often licenses are not granted, as there are many companies already in the area. He added that its not up to the license office to make decisions on this criteria and if a company cannot compete then it will go out of business. Interviewee G noted a similar point, that licenses should not determine the competitive nature of the private sector. Instead licenses should be used as a way of developing information of the industrial sector to assess the requirement of electricity, water, etc. Similar points highlighted by Interviewee E mentioned that companies have to submit financial statements to the Ministry of Trade. The Ministry does not analyse this information for regulation or suggest ways to improve the performance of these companies. He also mentioned that you need to fill out many forms and show many requirements

[110] Interviewees B, C (i & ii), E, F, G, H, I, K, L, M, N, O, P, Q, R and S.
[111] Interviewees H, J, L and R.
[112] Interviewees C(i), E, G and I.

when applying for SIDF loans but these cannot be used when applying for bank loans. Thus much time is wasted on paper work and these should be standardised.

- When exporting and importing. Interviewee O complained about the high level of bureaucracy when trying to obtain export licences, which he noted goes against the government rhetoric on the private sector increasing exports. Interviewee M talked about a new law that consignments of imported products have to be cleared at source, which is very time consuming. Previously the product just had to be inspected and if it was cleared then there was a free flow.

- When applying for a telephone line. Interviewee R mentioned that it can take between two to three years for a new telephone line.

A further problem area linked with the bureaucracy is the fact that they are not service oriented and does not have the flexibility to understand the needs of the private sector[113]. Interviewee O said that the ministries are always putting up hurdles and blocking the private sector. Interviewee R mentioned that when government and public sector officials do their job, they treat the private sector as if they are doing them a favour. He also gave the example of when he applied for extra telephone lines he was asked if he need so many and the official tried to convince him that he needed less. Finally interviewee R was told that there was no cable. He offered to pay to have the pavement excavated to place the new line, and was told that is not possible. Interviewee G gave an example of a board that he sits on that is run by one of the Ministries but want to lease it out the private sector who would manage it for a fee. Interviewee G stressed the importance of the private sector to have freedom to run it independently – he gave an example of a project that guaranteed a profit to the company but bureaucracy blocked the development of the project.

When talking about bureaucracy many of the interviewees also talked about the problems of regulation. One of the reasons for the private sector taking lead in the

[113] Interviewee G, O and R.

economy is to reduce distortion or investment and resources due to government involvement and the government should play a more regulatory role. Interviewee L suggested that this was not the case as some of the areas have too much regulations while other do not have enough. The areas where the interviewees felt there were problems with the regulations are listed below (often they have been covered in more detail in other parts of this chapter):

- Labour laws[114]. Originating from the 1960s they are seen as being out of date for the needs of the private sector. Interviewee K felt that there is a need for clear rules and regulation to manage the work place. Interviewees F and M highlighted the difficulties in firing employees.

- Poor regulations to encourage mergers. Interviewee P and Q noted that their main company is too small in the global context and that they want to merge and create alliances but it is government regulation that is stopping them from doing this. Interviewee P expanded by saying that the government faces the problem that if there is consolidation then there will be even fewer players in the market which will cause criticism. Interviewee N mentioned that there is a need for regulation concerning take-overs, mergers and acquisitions.

- Poor regulations for companies to go public. Interviewees N and P felt that government regulation does not encourage companies to go public. Interviewee N added that due to the lack of transparency of the rules it can take years to go public.

- Poor regulation of the insurance industry. Interviewee L mentioned that there is no regulation of insurance companies. The NCB Economist (1998b:7) noted a similar point[115]:

  > "...Saudi Arabia has no legal framework to regulate and supervise the insurance business. Disputes between the insurance companies

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[114] Mentioned by M, E, F and K.

[115] Although an article in the Arab News (Sept. 13th 1998:2) suggested that the situation is likely to improve as SAMA has aloud banks to introduce a variety of insurance schemes. Arab News added that this is considered a major step in legalising the insurance service in Saudi Arabia.

> and policy holders are currently handled by the ad hoc committees formed by the Chambers of Commerce and the Ministry of Commerce. The Saudi court system does not legitimise insurance activities and, accordingly, does not handle insurance conflicts. With no legal framework in place, the protection of the policy holders rights is probably worse in Saudi Arabia compared to other GCC countries."

- Regulations are needed to attract foreign direct investment. Interviewee's C(i), F, I, J, O, P and Q felt there was poor regulation to attract foreign direct investment. To illustrate this view, interviewee C(i) gave an example of an industrial project in another Arab country, where the feasibility and marketing studies were already completed and there were institutions to encourage and attract foreign investment. He added that due to their favourable experience in that country they have developed more projects there. Interviewee O also talked about the case of Egypt where there are organisations specialising in attracting foreign investment. Interviewees G and J highlighted the problems of getting visas, especially for women even if they are the team leaders for a project. Interviewee J compared this to UAE where you can get a visa at the airport. Interviewee O talked about the problems faced by joint venture partners who need a letter from their sponsor to get a telephone line, disconnect the telephone line, travel, etc. He added that this kind of procedures discourages foreign investment. The Riyadh Chamber of Commerce has also underlined the need to open the door to foreign investment in all sectors (Arab News, 2nd Sept. 1998:2). According to the study foreign investor should be allowed to own land and set up ventures alone. The study also indicated that:

> "The present system of court arbitration as well as the system for settling disputes will be modernised. The regulation for employment, sponsorship and residence permits should also be modified."

An article in the Arab News (24th Feb.1999:2) suggests that the poor regulations to attract foreign investment might improve in the near future. It cited the Minister for Industry and Electricity[116] saying that there will be a new package of incentives for local and foreign investors under the new investment regulations.

[116] Whilst presiding over the sixth session of Saudi Industrialist of Riyadh.

The article went on to say the new investment regulations (which have been submitted to higher authorities for approval) would match the incentives to investors from other countries in terms of flexibility. In a previous article in the Arab News (28th Jan 1999:2) the newspaper cited Dr. Yamani as saying as a part of its drive to attract overseas investment the Ministry of Electricity and Industry has started to streamline rules and regulation to make them more attractive to investors.

- Poor regulation for the protection of intellectual property rights[117]. The World Bank (1999:146) noted the importance of establishing and enforcing international property rights as it will increase access to foreign technology through foreign direct investment and access to foreign markets through trade. Interviewee M expanded by saying that Saudi Arabia is on the worst offenders list for the protection of intellectual property rights and has done little to improve the enforcement, especially compared to the UAE.

- Poor monitoring and enforcement of the regulation of the stock market. This allows the manipulation of the market[118].

Interviewee C(i) and O mentioned that bureaucracy and red tape was one of the main reasons for overseas investment, along with developing new markets and diversification. They also noted along with J and M that the high level of bureaucracy, red tape and problematic regulations was a deterrent for foreign investment.

5.4.8. LACK OF INFORMATION

Information is crucial to the private sector for making business and investment decisions[119]. Providing information is often seen as the role of government agencies as it is an externality and therefore a responsibility that the private sector will not

[117] Interviewees J and M.
[118] C(i), F, G, L, J, N, O.

shoulder well (World Bank, 1999:144). Twelve of the interviewees talked about the information and only one of them (B) felt that it is adequately provided for his business needs. Interviewee J said that information is not as good as he would have liked but it is adequately provided and not a major problem. He added that the government is getting better and there are also outside sources of information. Ten of the interviewees mentioned that information is not adequately provided for their needs[120]. The areas highlighted were information is missing includes:

- Macro economic information[121]. The interviewees mentioned that macroeconomic information was often out of date and not as in-depth as is required. Interviewee O noted that often the information provided in not very useful, e.g. how many licenses have been given out in the last year. Interviewee R felt that there was a greater need for demographic and employment figures as it is linked to Saudiisation and interviewee S stressed the greater need for information on how to deal with globalisation and WTO.

- Information about the market[122]. Five of the interviewees felt that there was not enough information on society and that present surveys do not represent the different sections of society well. He gave the example of a company wanting to produce shoes - there is very little information on the quality and the prices that it should aim for. Two of the interviewees mentioned specific areas where more market information is needed – the youth market and the recreation and entertainment market. Interviewee N felt that is the responsibility of individual companies to conduct market surveys and not the role of the government.

- Company information. Interviewee F felt that there not enough information on companies, i.e. a business directory – their contact details, what they produce, etc. He felt that this should be a role of the Chamber of Commerce.

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[119] See the 1998/9 World Development Report on the importance of knowledge and information for the different aspects of Economic Development.
[120] Interviewees D(i), E, F, G, H, M, N, O, R, S.
[121] Interviewees D(i), E, K, M, N, R.
[122] Interviewees E, G, H, K, M, O, S.

- Financial Information[123]. The interviewee mentioned that there is poor independent reporting of financial results of the companies on the stock marked. He suggested that one of the reasons for this was that the Ministry of Trade instigated a law that journalists can not attend annual general meetings of joint stock companies.

- The late arrival of the internet. Interviewee's D(i), O and R complained about the late arrival of the Internet, and although it was accessible via Bahrain this was seen as being expensive. The interviewees noted the importance of the internet for acquiring global information, business information, information on contracts and marketing. The internet was officially launched in Saudi Arabia on the 1st February 1999 (Arab News, 2nd Feb 1999:2).

5.4.9. CONCLUSION

An important aspect of economic development and of private sector development is the ability to attract private investment, both local and foreign. Indeed, one of the aims of the Fifth Development Plan (190:141) was to increase private sector investment within the country:

> "Although the private sector has accumulated substantial financial assets as a result of strong economic growth in the past, only a relatively small faction has been invested within the Kingdom. This has been a natural response to the general availability of funding for private sector activities from government sources, and to the difficulties of finding viable new investment opportunities, given the relatively small domestic market. However, private sector capital represents a very important under-utilised resource for the Kingdom, and the success of future economic development depends on introducing a much greater deployment of this resource in the Saudi and GCC economies."

The interviewees indicate that the environment is far from ready to allow private sector development. Whether it was the legal system, infrastructure, or the high levels of bureaucracy, etc. the interviews suggested that it discourages foreign

[123] Interviewees E, K and N.

investment in the Kingdom and the poor business environment is also a factor for overseas investment by the Saudi private sector[124]. Interviewee S thought it was unreasonable of the government to ask the private sector to invest more within the country when the environment is not favourable. Many of the interviewees indicated that there is still much work for the government to do to create the environment needed. Interviewee B felt that the government faces more challenges than the private sector. Due to the problem of the poor environment, time and money is spent to overcome these hurdles – which affects the performance and efficiency of the private sector.

5.5. GOVERNMENT POLICIES AFFECTING THE PRIVATE SECTOR.

As noted in chapter four, the main ways in which the government aims to liberalise the economy and increase the role played by the private sector is by reducing subsidies, carrying through privatisation and arranging for Saudi Arabia to join the World Trade Organisation (WTO). The government has also placed emphasis on the private sector in increasing Saudi employment in accordance with the policy of Saudiisation. As the government is no longer able to cater for the employment needs of the population, they are looking at the private sector to increase their role. This section aims to outline the views of the private sector on these policies, as they will affect them so greatly.

5.5.1. PRIVATISATION

The government sees privatisation as one of the main ways to increase the role played by the private sector in the economy. It is also expected that with privatisation the performance and economic efficiency of SOEs will improve, as will their prospects for growth (Fifth Development Plan, 1990:146).

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[124] The NCB Economist (1999c:1) noted that level of foreign investment in Saudi Arabia has remained disappointingly low and the it account for only 12.7 percent of total equity capital, *equivalent to SR18.4 billion.*

When talking about privatisation the interviewees mentioned a lot of uncertainties, such as whether the state will sell its SOEs and whether the private sector will be able to manage the privatised companies without government interference. The majority of the interviewees felt that privatisation was the right direction to go towards but were sceptical about it happening and that if it does happen, that it will not do so in the near future[125]. Only two of the interviewees suggested that privatisation is not important or the right move for the SOEs. Interviewee H and S felt that many of the SOEs play a social role but it was important for them to introduce good management structures. The reasons for the slow move towards privatisation are discussed below:

- The government wants to keep control of the SOEs[126]. Seven interviewees were sceptical that the state will sell its enterprises. Interviewees G and I highlighted that the talk of privatisation was a result of the low oil prices and if the price of oil went up then there would be less talk of it. G also noted that there has been a budget deficit for 10 years but the government has sold very little. Both G and L mentioned that they had talked with high members of the government who suggested that the state would not sell its assets. Interviewee G continued by saying that:

  > "The state has to have total control of its affairs. Defence and security needs money so your assets can't be sold."

  As mentioned by G and I earlier, this was especially important due to the lack of a coherent tax system, especially since revenue from institutions like the PTT are large income earners for the private sector.

- Many of the critical issues have not been defined therefore privatisation will not happen in the near future[127]. Other areas of uncertainties stem from the fact that

[125] Interviewees B, C(i), D(i), E, F, G, I, J, L, N, O, P, Q and R. A Ph.D. conducted by Al- Sarhan (1995:142-3) also indicated that the private sector supports the idea of privatisation. 91 percent of his interviewees were for privatisation.
[126] Interviewees G, I, J, K, L, P and Q.
[127] Interviewees B, C(I), F and N.

many of the issues surrounding privatisation have not been finalised. As mentioned by interviewee B:

> "The critical points still have to be defined. How is the government going to privatise? Will it privatise with all the land and the costs/debts – this will mean the price will be very high. Will the Telecom sector be privatised with all the international treaties – or will the newly privatised companies have to make them again."

Interviewee C(i) said that there is a lot to do before privatisation happens – companies have to be re-organised and restructured, what will happen the debts, some companies will have to be broken up by function. Interviewee N noted that one of the difficult decisions for the government will be which SOEs to sell first. The companies that people will be most interested in buying (such as SABIC) are important sources of income for the government. Other SOEs, such as SAUDIA which is subsidised by the government, few will be interested in buying.

- The environment is not ready for privatisation. Interviewees D(I), I, O, P, Q and T suggested that before privatisation is possible regulations need to be established so that the privatised companies do not act in a monopolist manner.

- The government will not privatise for social reasons. With privatisation it is expected that there will be higher prices for the goods and services provided by the former SOEs. Six of the interviewees felt that the government will be cautious about privatisation for this reason[128]. Interviewee G said that this goes against the paternalistic and tribal nature of the government. Four of the interviewees raised the problem of employment. The SOEs are overstaffed and if the companies have to be run on a commercial basis then many people will lose their jobs. Interviewee R cited a survey that said that SAUDI is overstaffed by 40 percent. A final area that N and J highlighted as a concern to the

[128] Interviewees B, F, G, H P and Q.

government is that the twenty to thirty families that dominate the private sector will buy the majority of the SOEs[129].

Since the majority of the interviews were conducted, progress has been made in the process to the privatisation of the telecommunications and electricity sector. As a result, interviewee I mentioned that the process of privatisation might speed up. Interviewee's J, O and P disagreed with this and felt that privatisation was still a while away and a number of things still have to be done. Interviewee R suggested that the changes in the telecommunications and electricity sector are not that important as it is the same people in the same positions and that their mentality will not have changed.

The second area of uncertainty was if the private sector will be free to manage the privatised companies independently[130]. These interviewees stressed that privatisation should not be a way for the government to collect money but that privatised companies should be run as commercial companies. Interviewee E noted that the government talks about privatising the postal service but its says that it will not fire anybody; this means efficiency will be affected. An article in the Arab News (4th Dec 1998:2) also indicates that jobs will not be lost in the electricity sector:

> "The Industry and Electricity Minister Dr. Hashim Abdullah Yamani yesterday dispelled anxiety of the future of the existing staff of the merged electric companies by stressing that the new company will be needing the experience and the expertise of the existing staff."

Interviewee I and N suggested that the management of these companies will still result from government decisions as they feel that 51 percent will still be held by the government. The Financial Times (8/5/1998:7) mentioned that at the beginning, the government will retain a share as the market is not big enough to absorb the full equity. If this is the case where the government continues to control decision making after privatisation then there will be little benefit out of the process.

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129 Interviewee N stressed the importance of the stock market to bring in the small investor.
130 Mentioned by interviewees C(i), E, I, H, I and N.

Interviewees J and P felt that this was not possible and this would not be privatisation.

The majority of the interviewees said that they could not say which of the SOEs they would like to invest in, it depending on how the companies will actually be privatised. But in the current situation the area with most interest was the telecommunication sector. B, F, H and P mentioned this. Interviewee P mentioned that he would also like to invest in power, airports, ports and transport. The area most interviewees mentioned they would avoid is SAUDIA[131]. Interviewee L noted that the privatisation of companies like SAUDIA will be very slow as the royal family get many advantages such as free flights and using SAUDIA planes – and these people will block privatisation.

5.5.2. SAUDI ARABIA JOINING THE WTO

Compared to other areas, this was an area where the results were very varied. Some felt that joining the WTO will not have a negative impact on the private sector, while others felt that this is the end is manufacturing in Saudi Arabia. Interviewee U, who works for an organisation responsible partly for advising the private sector on the effects of Saudi Arabia joining the WTO, said that he had no idea what the impact will be, how difficult it will be in the short term, the advantages in the long-term, etc.

Nine of the interviewees were not worried about joining WTO[132]. The views ranged from a very simplistic view presented by D who felt that the government would not do anything to harm what they created, to those who thought it would be good for the economy. Interviewees B and H suggested that this was a good way to go because the inefficient companies will not survive and this would be a good process to remove those who can not stand on their own. B added that joining the WTO would also mean that Saudi companies would be able to access foreign markets and

[131] The Ph.D. by Al- Sarhan (1995:158) concluded that SAUDIA and Saudi Telecom were the most favoured by the private sector for privatisation. Whilst this coincides with my result for the telecommunication sector, none of the interviewees showed interest for SAUDIA.

interviewee H mentioned that Saudi companies will not have difficulty finding foreign markets as their products are of a high quality. H also mentioned that the agricultural sector will be able to survive as subsidies to agriculture in Europe are far greater. Interviewee B noted the importance though, for companies to have a strategic partner. Interviewees L and M mentioned that due to the nature of their companies Saudi Arabia joining the WTO would not adversely affect them. As noted before, interviewee L's company competes internationally already and is not dependent on any subsidies. Although he did mention that the government has to set up the right regulations and get prepared for the operations of foreign companies. Interviewee M mentioned that companies like his, which import products, would not be negatively affected. He did mention it will be difficult for local manufacturing. It is important to note that the company M works for is an international MNC and not an indigenous company. M and also noted that joining the WTO will help improve the situation on the regulation of international property rights as well as banking and insurance services. The NCB Economist (1998a:2) expressed a similar point of view:

> "In the banking sphere for example, emerging countries are feeling the threat coming from foreign banks who will sooner or later be able to enter the host country's financial scene, skim the top tier customers and provide them with global, up to date, services at a much cheaper rate than was available in the domestic market. Arab banks are already competing with the likes of Merrill Lynch in their investment banking activities, with Citibank in their Islamic banking and with Swiss banks in their private banking services."[133]

Interviewee R also felt that Saudi Arabia joining the WTO is a positive move and that the private sector has already started preparing for it. The preparations include training, improving management and merging[134].

Other interviewees (C(ii and iii) and I) felt that due to the transition period (to ease the changes in slowly) the private sector will be able to adapt and survive[135].

[132] Interviewees B, D, H, L and M.
[133] The Saudi government has allowed GCC banks to open branches in Saudi. As noted by Arab News (Friday 17 July 1998:2) there are fears of stiff competition in the market and resultant downward pressure on the margins.
[134] Many of the interviewees such as A, E, J, N and P, T disagrees with this and felt that the private sector will not be prepared.

Interviewee I noted how important it was to use this period to restructure and to reorganise themselves and use this period:

> "Many in the private sector are worried that their businesses won't survive. But this is not true – the WTO will put in place a code of conduct that will make sure that every one will play at the same level. It should not hurt as long as we move slowly and adjust internally. We have to look a the global scheme – we have to market not only in Saudi Arabia but also in the world. We have to create a market outside – so we have to take strategic partners. He noted that there is a need to merge, as the market is not just Saudi Arabia but the world. Saudi companies have to merge to become bigger to become more effective internationally. There is a very weak manufacturing structure as it is very fragmented and there is a lot of duplication. It is also important to make strategic alliances. He continued by saying that he feels that industry has reached its limits in Saudi Arabia (especially ISI) – most of the big projects have been built and there is a small market. Therefore mergers and restructuring is very important especially to compete globally."

Eleven interviewees were extremely worried by the prospect of Saudi Arabia joining the WTO. Many felt that this way the biggest challenge faced by the private sector and they thought the government does not know what it is doing. Interviewee's C(i) and F mentioned ARAMCO and SABIC (F pointed out that there were only two members of the board from the private sector) would be the biggest winners. Interviewee's A, E, J, M, P and T felt that the private sector will not be ready for the WTO. Interviewee A mentioned that the Jeddah Chambers of Commerce and Industry held a talk on the impact of the WTO and very few people turned up. Indeed out of all the interviewees only one (O) had mentioned that they have done feasibility studies and mentioned how their business would be effected. This is discussed below. Interviewee F mentioned that due to the poor management capabilities of the private sector they will not be capable of adapting in time. Interviewee S suggested that even if a company is prepared it will still be affected as joining the WTO will have an impact on the economy as a whole. He went on to say that if many companies close then there will be greater unemployment, more pressure on Saudiisation and as a result of all these factors there will be a

[135] Interviewees N and P also mentioned this grace period but they were still very pessimistic about the private sector's ability to survive.

recession[136]. Interviewee G suggested that Saudi producers need government protection from unfair competition and cheap products dumped on the Saudi market – such as sugar[137]. Interviewee P mentioned that his organisation is worried about the competition linked with the WTO:

> "The main problem we face is that it is too small in the global context – even if we are the biggest in the Middle East. It is a closed market, we need to merge and create alliances. Regulations block growth, we wanted to merge but it is not allowed. The problem the government faces is that if they allow consolidation then there will be even fewer players. We are very worried about joining the WTO, we might get bought over. So we need to grow to survive."

Interviewee G mentioned that many private sector industries will suffer. This point can be illustrated from the quote below:

> "I am not convinced the government knows what it is doing. It could be from a consumer's point of view – i.e. they will benefit through cheaper imports... Private sector industry will suffer. At the moment industry is very fractured. Manufacturing is too fragmented – it has not reached a level of sustained comparative advantage. If companies merge some will survive – if there are mergers then there may be a group big enough to compete regionally. Most manufacturing will collapse. Coca-Cola will move into the region and put in a lot of money to gain market share. The market will be dominated by and will oscillate between Coca-Cola and Pepsi – between 30 –70 percent. Others in the fizzy drinks industry will not survive. Soaps and skin products will be dominated by Unilever and by Proctor and Gamble. The others won't survive...The following view was given to me by a senior manager of a MNC. Either a country will become an important centre of excellence for industry or it will not have any. So Saudi Arabia will either have no industry in the future and will import through their links with the MNCs or it will become the centre of excellence where industries will locate. The manager of the MNC gave the example that in 1990 they had some 40 plants in Europe, now there are 5. With the opening up of Eastern Europe and other areas the movement of people and production is flexible. Economies of Scale are important, there is a new dimension of location. Before you had to be near the raw materials or the market

[136] Al-Mutrif (1999:16) mentioned a similar point that after the implementation of the World Trade Agreement, competition will eliminate a large number of weak companies, which will lead to job losses. Many companies will have to restructure and reorganise. Those looking for jobs will have to be computer literate, with working knowledge of English and have managerial skills.

[137] See Soufi and Mayer (1991:62) for a similar view form that survey of industrial firms.

> – this is no longer the case. Import duties are irrelevant with the WTO and now you don't have to be near the raw materials or the market. Now you have to look at all the factors (including things like the skills of the labour) and find the lowest common denominator - where it is the cheapest. Kellogg's did a study to see the best location to enter the Saudi market. Now the best place to be is Turkey for Europe to China. Transport costs are low."

Interviewee O mentioned a similar point, that with international competition, non-branded, non-MNC consumer products will be very hard hit. A product needs to be of a very good quality with strong local loyalty to survive or gain a niche in the market. He gave the example that a dairy company might be taken over by Nestle. Mediocre, one-man-show companies have no chance of survival could be in areas such as soaps, detergents, make-up, etc. He mentioned:

> "As a result many of our small customers might disappear, especially those who do not have a brand name with a strong reputation. We are not too worried because we have MNCs as clients. We are efficient and have the right systems in place (e.g. IT systems), we have investigated the possible outcomes so we will be prepared. As a result our strategy is to grow regionally. We aim to grow regionally in the areas of packaging and adhesives (we have two factories of each); the management is very keen on this. We have developed a sustainable advantage and we are looking to the future. The MNCs will survive with the WTO so we will not suffer as much."

There was confusion between the interviewees on which sector will be the hardest hit. Whilst interviewees G and P felt that small and medium non-branded products will disappear; interviewee N disagreed with this as he felt the MNCs will not be interested in them. Interviewee N mentioned that it was the large Saudi companies that will be the hardest hit, as these will be the ones that will be competing with MNCs. This will have a large impact on the economy, as these are the ones that dominate the private sector. Interviewee J mentioned that it will be the agencies that will suffer as they can come in by themselves, import a sign from DHL, sign a lease for an office and they can start their own business. They don't have to go through a local agent[138]. Although N felt MNCs will not hurt their business partners who are

[138] As noted by Meed (12th June 1998:30) "Full participation in the WTO implies a raft of other changes – free access for foreign investment in stocks and property, a dilution of exclusive agency agreements and a differential in tax between local and international companies."

already established. Also perhaps it will still be useful for them to have Saudi partners with local connections.

Despite the many different views on Saudi Arabia joining the WTO, the majority of the interviewees felt Saudi companies will have to start competing with international companies. This means that they have to become internationally competitive and up to date on technology and trends. As mentioned by some of the interviewees it is time for the private sector to start to reorganise themselves to get prepared for this competition. One example is a proposed merger is between Saudi American Bank (SAMBA) and United Saudi Bank (USB)[139]. The following statement is from the Arab News (7th Jan.1999:1) which quoted a statement from the banks:

> "Both banks foresee significant value in such a merger, especially given the outlook for slower growth in the region. This is an excellent time to combine resources and thereby reduce expenses. It is also the right time to position the bank for growth when the economic upturn occurs as it inevitably will." The statement added that the merged institutions would be able to meet an increased level of competition from WTO and GCC sources and would also give serious consideration to expansion."

After the merger announcement between SAMBA and USB, Arab News (12/1/99:1) reported that senior members of National Commercial Bank (NCB) would welcome a merger with a Gulf or Arab Bank as long as full harmony in future perceptions and planning is provided. The article went on the say:

> "Kaaki (the Director General of NCB) said that the merger between two Arab or Gulf banks was a good decision, and would enhance the performance of these banks locally and internationally. He added that such a step enable these bank to confront belligerent competition in the banking market and monetary trade in light of the world trade organisation."

Another example of a merger is one between the Saudi Al-Aziza Company and Savola (Arab News, 28th Dec.1998:2).

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[139] Saudi American Bank and United Saudi Bank merged with effect from July 1999.

5.5.3. SAUDIISATION

The majority of the interviewees noted that Saudiisation was a response to the political issue of growing unemployment and reduced standards of living[140]. Interviewee B felt that the attitudes of working in the private sector are also changing as a result of the recession. He noted that previously, out of a group of 50 graduates trained by his firm, only two would be there in six months time. It was generally seen as being more desirable to work for the government rather than the private sector, which was seen as being much harder work. Interviewee B said that this is not the case anymore. Interviewee C(i) also mentioned that Saudis are now doing jobs that they were not prepared to do before.

All the interviewees mentioned that Saudiisation will affect the workings of the private sector in a negative way, mostly through increased costs and reduced productivity. The interviewees can generally divided into two groups:

1. Those who feel that Saudiisation is necessary for the future and the sustainable development of Saudi Arabia, which needs to be based on a Saudi workforce[141]. This group felt that there are and will be short-term cost but in the long run there will be many benefits as a result of Saudiisation. Some of the interviewees felt that it is the national duty of the private sector to employ Saudis. Interviewee B mentioned that ARAMCO has been Saudiised for many years without any problems and now the telecommunications sector following its example. Despite having the view that Saudiisation has many benefits for the future, he felt that the process should start only once the education system has been revamped.

2. Those who felt that Saudiisation goes against private sector development and economic liberalisation and it will only be counter productive to the private sector[142]. Interviewee J mentioned that he would rather pay 5 percent tax and see the money spent on training and be allowed to manage his business. He

[140] This was mentioned by B, C(i), J (who also mentioned that women not working is an extra burden on society) and K.

[141] This group included B, G, H, I, M, N, O and U.

mentioned that he should have the ability to hire the best person for the job and not employ people for welfare purposes. Interviewees E and L noted that management is problem enough without Saudiisation. Interviewee S felt that the private sector has enough to deal with, such as restructuring and preparing for globalisation, and that it is unfair of the government to place this extra burden on them.

Many of the problems caused by Saudiisation are a result of the problems created by the education system (as seen before). Nearly all of the interviewees mentioned that the education system has to change. Interviewees noted the following problems resulting from Saudiisation:

- Saudi Arabians are more costly than expatriates are. Many mentioned that the low skilled expatriate workers are exploited. Interviewees K and S noted that the cost will go up not only because Saudis are more expensive but also due to the lack of supply of skilled labour – thus this small number of capable individuals will be head hunted between the companies and their price will go up.

- Saudis are not educated to a high enough level and this will harm the organisation. Some of the interviewees mentioned that it will be difficult to see some of the expatriates go with all the knowledge and experience they have developed.

- Saudi workers have poor job ethics once they have got the job. For example, C(ii &iii) mentioned they are not punctual and can be absent from work for many days. Although they noted new government policies are helping to combat these issues which is helping the private sector. Interviewee J noted that as a result of poor work ethics efficiency will suffer. And O noted that work is often the 3rd or 4th priority for the Saudi. In his experience the best motivated workers are those from minimum means. Interviewee O gave the following example:

> "We have to bring in hard working Saudis - these come from families with minimum means, so that they have the motivation.

[142] This group included A, C (i, ii & iii), D, E, F, J, K, L, P, R, S and T.

> For example the head of purchasing - we trained him, I mentored him, now he is the head of the section and better than anyone else. This is the same for our Head of Human Resources - we gave him the responsibility, the freedom and we sent him abroad for training."

- The private sector is not ready to provide proper training for the new Saudi employees. Interviewee G felt that the government should pay him for training.

- There is no loyalty to the companies. The private sector does not know how to create loyalty as Japanese companies do. Therefore employees and employers are not very loyal to each other.

As a result of these points, the efficiency of the private sector will be reduced while their costs will go up. D mentioned that the areas hardest hit will be the technical and professional areas and interviewee I noted that 85 percent of jobs that the expatriates do will not be done by Saudis. Interviewees F and L felt that all areas will be affected.

Interviewee K suggested that there is a need for flexibility when dealing with Saudiisation, which has to take into account factors such as geography. He gave the example of the eastern region where there are still many expatriate teachers. There are many women who want to teach but are unwilling to move to areas where the jobs are, such as Dammam. He concluded by saying that labour is immobile.

In trying to see the positive side to Saudiisation interviewees F, M and O mentioned that in theory it will be good to hire Saudis as they will stay and not move with their training and experience in 3 to 5 years time. Interviewee F noted that often expatriates will leave after five years; with Saudiisation, there will be continuity. The biggest problem is finding the right Saudi to do the job and if the Saudi employee is not working out it then it is difficult to fire them. Interviewee G also mentioned that hiring Saudis will be good for the economy as expatriates will not take their income out of the country and there will be a multiplier effect[143].

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[143] Schotta (1996:41) mentioned that not only will Saudiisation help provide employment but it will also help the balance of payments as remittances by foreign workers to their home countries is nearly US$15 billion a year.

The report by Saudi Development and Training Company (1996:12), noted some similar results to the interviewees above:

> "Saudi employers generally believe that Saudi employees are generally more expensive and less productive than the foreigners. They also believe that foreigners are more compliant to their wishes....In all of these matters there is an element of truth. Saudi employees are more expensive in that they do seek high salaries and also are less productive. Saudi employees are less compliant than foreigners with regards to moving to where the work is – Nejdis wish to stay in the Nejd, Hijazis the Hijaz etc. This is because it is difficult for Saudi to function socially outside their family circle."

In conclusion, Saudiisation goes against the view of allowing the private sector to take the lead in the economy. This is especially important, as with Saudi Arabia joining the WTO, then companies have to be competitive and efficient[144]. As noted above this will not be the case with Saudiisation – with productivity decreasing and costs increasing. This is especially relevant, as one of the main reasons for privatisation is that the private sector is more efficient.

5.5.4. CONCLUSION

The Saudi government seems to be in a difficult situation. Due to the fall in the oil prices the government is moving towards economic liberalisation, and at the same time trying to look after its citizens especially with rising unemployment and reduced living standards. As a result there are opposing policies like those of privatisation and joining the WTO and that of Saudiisation. For example, how will Saudiisation affect the ability of Saudi companies to compete in the world market. Much of the success will depend on whether the government will be able to bring in economic change without disrupting the social harmony.

[144] Al-Mutrif (1999:16) noted that it will not be not be easy to dispense with the 4.7 million expatriates as "suspension of employment visas, immediate repatriation of expatriates, and putting higher fees are temporary solutions which do not cope with the international takeoff of liberalization of manpower movement and granting more incentives under WTO agreements."

5.6. PRIVATE SECTOR – GOVERNMENT RELATIONS.

A good relationship between all levels of government and the private sector is critical for successful private sector development and economic reform (Egyptian Business Association, 1996:16). The Egyptian Business Association also stresses the importance of the government and private sector collaborating in the preparation and execution of economic and social development programmes.

The majority of the interviewees that talked about the relationship indicated many and various channel of communication between the private sector and the government[145]. It is interesting to note the five interviewees that thought that the channels of communication between the government and the private sector are poor, are employees of the companies rather than the owners[146]. Interviewees C(i), O and P did acknowledge that that it is the top members of the private sector that meet the Royal Family and the leaders of the government department. Interviewee O added that smaller companies have fewer links with the government. The main channels of communication between the private sector and the government are:

- Meeting with the King and Senior Princes. Nine of the interviewees noted that it was possible to have meeting with the Royal family from the King down[147]. Interviewee D mentioned that Crown Prince Abdullah's door is open to the private sector. Interviewee H felt that this was an effective way for the private sector to get their voice heard. He gave the example of when taxes were imposed on expatriates, the private sector went to the King, who abolished it.

- Meeting with government ministers and top officials. Eight of the interviewees thought that this is an important source of communication[148]. Interviewee's C(i), F, I, K, O and R felt that great improvements had recently occurred recently in this area. They noted that the old minister did not take in to account the views

[145] Interviewees B, F, G, I, J, K, P, Q and S.
[146] Interviewees C(i&ii), D(ii), N and T.
[147] Interviewees B, C(i), F, H, I, J, O, P and Q.

of the private sector, even if it did affect them, and would just dictate policies to them. The interviewees highlighted that the now ministers are far more service oriented and take into account the views of the private sector. Interviewee I mentioned that this was a direct order from the King to involve the private sector more. As a result the private sector is more involved in the formulation of new policy and regulations. Interviewee R also mentioned a similar point, that some members of the private sector are involved in areas such as trade delegations and Saudi Arabia joining the WTO.

- The Chamber of Commerce. Only interviewees A and U felt that this was a good channel of communication. Interviewees F and I suggested that it is becoming more important for the private sector as a whole to lobby their views. The majority of the interviewees thought that this was not an important method. Interviewee B noted that the Chambers of Commerce was a good link if you don't have other more direct ones.

- The Majlis As-Sura. Interviewees H and P noted this. H also mentioned special committees as another link.

Despite these links to the government six of the interviewees stated that the private sector and the government do not work together to the extent needed[149]. Interviewee I said "A full understanding has not come yet between the government and the private sector...the government is still not that responsive to the feelings and the needs of the private sector. The government feels that the private sector is only interested in its own personal gain – and that it only pursues profit. They still don't understand that they have to do that – i.e. the private sector has to be profitable." Interviewee O felt that this was partly a result of the fact that the private sector has not voiced their concerns better.

Soufi and Mayer (1991:121) suggested a worse relationship than indicated in above:

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[148] Interviewees B, C(ii), F, H, I, J, K and R.
[149] Interviewees F, I, O, P, Q and T.

> "The inability of the Saudi government agencies to interact effectively with the business sector as a whole, and not only its industrial branch, suggests that these agencies were still fumbling in their new role of seeking out the business sector rather than waiting for businessmen to come to them. Government officials and business-sector managers began to have regular meetings and conferences, which provided a basis for expecting clearer communication between the two sectors. The government, however cannot meet all the demands and the expectations of the business sector."

5.7. CONCLUSION.

This theoretical chapter outlined the different factors needed for successful private sector development. The overwhelming feeling of the interviewees was that neither the capabilities of private sector nor the environment is presently ready for successful private sector led development. The interviews showed that doubts relating to this policy at present fall into several categories. These include inefficiencies within certain areas, a lack of management abilities, the impact of government policies such as Saudiisation, and a poor business environment. Despite these hindrances, the private sector feels that it can play a greater role in the economy than at present and privatisation is one way in which it can contribute to development.

Poor efficiency and management practices within certain areas of the private sector are seen as a hindrance to private sector led development. As seen earlier in the chapter the interviewees noted that efficiency and management abilities varies within the private sector. The policies to protect the private sector were highlighted as one of the reasons for continued inefficiencies; thus the sector must not try to block the removal of various forms of protection. A further point regarding efficiency and management capabilities is that the private sector are not internationally competitive. This is especially important when considering that Saudi Arabia is presently discussing its accession to the WTO, which will mean that forms of protection will be removed and the private sector will have to compete internationally. When discussing Saudi Arabia joining the WTO, there was a great deal of uncertainty on how the opening up of markets will affect the private sector. The ability of the private sector to compete internationally is critical to its survival. It will be important for the private sector to use the transition period to reorganise to be prepared for the competition.

A further area raised by the interviewees is the impact of family owned businesses on efficiency. This is important, as many of the top private sector companies are family owned. One of the possible solutions is for the companies to go public. Many of the interviewees suggested that there are other options and that going public is not the first solution for family owned business, as there would be a sense of losing something that belongs to you. It is important for these businesses to address these issues of continuation, whether through the formulation of succession plans or the separation of management from ownership. The above outlines that the private sector needs to improve its capability and managerial abilities, and respond to challenges such as joining the WTO.

The interviews bought out the need for great improvements in activities and services related to the government or provided by the government. In many areas the private sector could not operate efficiently, as the infrastructure and services available were not adequate. The areas that hinder the running and the future development of the private sector include:

- The education system, which does not meet the needs of the private sector. A point linked to this was the need to change the attitudes and expectations of the work force, which will take time to achieve. Thus the private sector needs to spend time and money retraining the employees. This point is especially important with regard to the government's policies of Saudiisation.
- A legal system that needs a more comprehensive set of commercial and civil laws to protect the interests of the private sector.
- An "uneven playing field", due to the various forms of crony capitalism and the importance of influence. This greatly affects the allocation of investments. However, many private sector companies themselves developed due to their influence and relationships.

- A stock market that provides limited investment opportunities in the country and a lack of ability of attracting new capital.
- Infrastructure that does not meet the requirements of the private sector, despite the huge amounts of investment from the government in the 1970s. The areas highlighted included the industrial cities and the telecommunication system.
- A high level of bureaucracy and red tape.

Not only do these points affect the efficiency of the private sector but also private sector and foreign investments into Saudi Arabia. In addition to the environment provided by the government, there was also some feeling that the government policy of Saudiisation will harm the ability of the private sector to be competitive and efficient. All of the interviewees noted that Saudiisation affects the performance of the private sector as it results in increased costs and reduced productivity. Despite this some of the interviews noted that Saudiisation was important for the future sustainable development of Saudi Arabia whilst the remainder felt that it went against the ideal of private sector development.

Some doubts regarding private sector led development stems from these views:

- the private sector needs to gain experience;
- the overall private sector is still dependant on government spending (thus indicating a lack of diversification of the economy); and
- the lack of development of private sector capabilities is a result of the profitable market conditions (due to the high levels of liquidity) and government policies to protect the private sector.

The interviewees suggested that despite the need for the private sector to mature, at present there is a greater role that the private sector can play in the economy and in many areas the private sector can be more effective than the state. The interviewees suggested that the private sector is more efficient than state organisations and often Ministries block private sector development in their areas. The greater role of the private sector within the economy will also help in increasing the experiences and capabilities of the private sector. The interviews conducted also indicated that despite the fact that government expenditure is still important for the health of the private sector, the private sector has gained a degree of independence since the recession of the 1980s. The private sector is also less dependent on government contracts and the importance of subsidies has been reduced.

The majority of the interviewees agree with the policy of privatisation to increase the role of the private sector within the economy and to improve their capabilities, although they noted that there are many uncertainties. Firstly, the fear of losses of jobs within the SOEs may prevent privatisation from happening. Secondly, there are questions regarding whether the private sector will be able to make their own decisions after privatisation occurs. Some of the interviewees noted that the importance of privatisation is not merely to change ownership from public to private but also to change the way the company is being run.

There are many challenges to face for both the private sector and the government. The private sector has to improve their core capabilities and managerial competence, especially in the light of Saudi Arabia joining the WTO. The government has to strengthen its institutions and restructure key areas such as the legal and educational systems. This is not only important for attracting greater private investment but also for the improved efficiency of the private sector.

Chapter Six

Conclusion

6.1. INTRODUCTION.

In light of Saudi Arabia's economic structure and performance, as illustrated by the thesis, it is now possible to see which categories Saudi Arabia falls under, as outlined in the theoretical chapter (chapter two). Chapter two outlined two models of possible state intervention – SAC and SSC. In addition, the theoretical chapter outlined the different natures of state intervention as suggested by Evans (1995:11). This chapter will survey the information presented in the previous chapters to summarise which models the Saudi Arabian experience best resembles. This identification is necessary to comprehend the character of development within Saudi Arabia, as well as to assist in the delineation of some of the problems faced by previous development policies.

6.2. THE DEPTH OF STATE INTERVENTION IN SAUDI ARABIA.

It is clear from the Saudi Arabian case study that the government has played a greater role in the economy than the state is allocated in the SAC model. Under the model of SAC there is a strong belief in economic development through free market capitalism. State involvement should only occur when the state can provide goods and services cheaper and more efficiently than the private sector, and, during incidents of market failure, in order to ensure a favourable economic environment. Despite the Saudi Arabian government's commitment to free enterprise, as visible in the following quote from the Sixth Development Plan (1995:39), the thesis has shown that state intervention is Saudi Arabia fits into the SSC model:

> "From the outset of development planning in the Kingdom, the adoption of free market principals ensure that private enterprise would always by the main focus of economic activity."

Under SSC the ideology is behind the state actions and policy to achieve economic development and growth.

The role of the state was heightened as a result of the oil boom from the early 1970s. Oil revenues were received by the state making it the main economic agent within the economy. The important role of the state and oil revenue can be illustrated from the Third Development Plan (Ministry of Finance, 1980:30-1), which noted that the high degree of financial independence as a result of the increased oil revenues has meant that there is no need to levy taxes on other sectors of the economy. The state has been involved in the economy at various levels. The state controls the oil industry and has been responsible for the establishment and management of many industries within Saudi Arabia. The state was central to the development of the infrastructure needed for economic growth, and the move towards industrialisation (both through ownership and through other encouragements). As Looney (1996:43) noted, the state has had a virtual monopoly in the development of infrastructure and the provision of most utilities and communications services. He further added that the government appears to prefer public-private ventures in key industries.

Not only has direct government intervention been central to the Saudi Arabian economy, indirect government action and intervention has also influences the economy. As seen in previous chapters, the performance of the economy has been very dependant on the level of government spending. Periods of high oil prices and government spending saw high levels of growth of the economy as a whole and the private sector. Falls in the oil price and government spending had the opposite effect of recession.

The state has also played a central role in the allocation of oil revenues through its funding agencies in accordance with the objectives of the Development Plans. Thus, the nature of the private sector industry has been very dependant on SIDF loans and government licences. As well as SIDF loans, the government has also encouraged private sector industry in a number of ways. These include the government purchasing products, encouraging joint venture projects (to promote technology transfers, etc.), export promotion, import protection, provision of industrial cities with subsidised rent, electricity, water, etc. The profitability and growth of the agricultural sector have been a result of government subsidies, interest free loans and government price support. As a result of this governmental encouragement, the character of the agricultural sector has been transformed from traditional modes of farming into large-scale commercial farms. The nature and growth of the private sector has been dependent of the nature of government spending and planning. The area of private sector involvement has been very dependant on government intervention via the venues of government loans, licences, subsidies and encouragement. Thus, government policy has greatly affected the resource and investment allocation, and, consequently, patterns of production.

The level of government intervention and the impact of government policy on resource allocation indicates that the Saudi Arabian case resembles the model of SSC.

6.3. THE QUALITY OF STATE INTERVENTION IN SAUDI ARABIA.

As noted earlier in the thesis and in this chapter, Evans (1995:11) identifies three types of state with regard to state intervention: the predatory state; the intermediate state and the developmental state. The Saudi Arabian case as outlined throughout this study indicated that Saudi Arabia best fits into the intermediate state, i.e. with conflicting tendencies towards both predatory behaviour as well as efficient behaviour.

Evans (1992:166) gave the examples of India and Brazil as intermediate states and noted that in certain periods their economy transformed due to state intervention. As a result of the increased revenue, government aims, plans and spending has totally transformed the economy. The constraints to development, such as a lack of capital and infrastructure were removed. The first two Development Plans focused on developing the infrastructure, which was virtually non-existent at the writing of the first Development Plan and materialised during the following decade . Before the oil boom in 1970, the development of the industrial sector was limited, containing only offshoots of the oil industry. As enunciated earlier, the government has been central to the diversification of the industrial sector, either by direct involvement or by encouragement offered to the private sector. Industry has expanded to include the production of petrochemicals, building material, engineering and metal products etc. The economic areas of contribution from the private sector have broadened, before and during the early stages of the oil boom; the private sector mostly focused on the service sector, such as trade and real estate. The private sector has gained independence from government spending. 1998 witnessed steady private sector growth whilst the oil sector contracted. The study conducted by the IMF (1998:29-31) indicates a more autonomous private sector, with a weakening in the link between government expenditure and private sector output.

Despite these economic achievements (and indeed the economy has been totally transformed), there are still structural problems plaguing the economy. The sentiment expressed in the literature and by some interviewees, is that the development of the economy since the oil boom has been below expectation when compared to its potential. The economy is still dependent on government expenditure of oil revenue as the main stimulus to economic growth. One of the main aims of the Sixth Development Plan (1995:47) is to diversify the economy to lessen its dependence on oil revenue. Although the private sector has made gains in independence from government spending, the economy as a whole is still driven by oil revenue. Despite the emphasis in infrastructural development in the 1970s the country now faces shortages in areas such as electricity, land in the industrial cities, etc. Looney (1996:38) suggested that:

> "While considerable industrial diversification into non-oil sectors has been achieved, the results, other than those achieved by the Saudi Arabian Basic Industry Corporation (SABIC) have been

> below expectation. It is apparent that adequate demand can not be maintained without a steady infusion of government expenditure."

Auty (1990:152) also suggested that the level of economic diversification has been disappointing. He noted that the case of Saudi Arabia's resource based industrialisation has been relatively successful (due to a number of reasons such as the size of the oil windfall), although they have absorbed a large amount of GDP and their contribution to value added has been less than expected. Recent innovations in the agricultural sector have come with a high price to the economy, as agricultural development is not sustainable without government support. As noted earlier in the thesis, Business International (1989:55) estimated that in the 1980s the government invested SR 75 billion in agriculture.

It is important to examine why the economy has not diversified to a greater extent and why there has only been limited self-generated growth, i.e. why the economy is still driven by the government expenditure of oil wealth. In this investigation, it is helpful to refer to the models of development, particularly that of the developmental state, to see how it differs from Saudi Arabia's experience. The following section discusses why the developmental state pattern does not exist in Saudi Arabia.

- A predatory element. As expected in an intermediate state there are levels of predatory behaviour. These have been outlined in both the secondary resources and in the interviews conducted. Examples were given where government tenders and contracts often depended on contacts and influence of the individual. As Chaudhry (1997:161) noted, princes and politically important persons were the main beneficiaries of the sectoral developmental programmes. As a result of the predatory element, resources are not necessarily allocated for developmental objectives, but instead are wasted on rent-seeking and DUP activities; individual maximisation takes priority over collective goals of economic development.

- Bureaucratic inadequacies. Evans (1995:12) elucidated that one of the crucial features of a developmental state is a highly competent and committed bureaucratic organisation, created by a meritocratic recruitment process and long term career rewards. Interviewees suggested that this was not the case in Saudi Arabia, where much time, money and efficiency was exhausted on bureaucratic maters and regulations. It was also mentioned that the level of corruption and bribery have also increased within bureaucracy. In addition some of the interviewees noted that the bureaucracy is not service-oriented and shows a lack of flexibility to and understanding of the needs of the private sector. Kruger (1993:53) commented that even if a state aims to achieve efficiency and growth there may be many obstacles to prevent this, such as a lack of planning capabilities. The Wall Street Journal (6 October 1975, cited in Al-Farsy (1990:151)) and Lackner (1978:146) both suggest that perhaps the most significant outcome of the First Five Year Plan was the planning experience gained by the Central Planning Organisation. Business International (1981:28) also noted that the major achievement of the first two plans was the greater effectiveness of Saudi government organisations, especially in planning. This implies that the planning process was not sufficient to best utilise and maximise oil revenues. The Sixth Development Plan (1990:39) noted that at the beginning of the planning process:

> "The government also provided the institutional framework needed for economic and social development by establishing new ministries and agencies and by upgrading the existing administrative bodies, thus facilitating expansion in the absorptive capacity of the Kingdom's economy and greater economic efficiency."

This suggests that the level of institutions and the planning experience was not at the level to take full advantage of the oil boom.

- Lack of private sector independence. Evans (1995:44) noted that one of the main factors behind successful industrialisation and South Korea and Taiwan was the states' ability to foster long-term private sector development. As seen in Chapter 2 in the case of Taiwan, the state protected infant industries until they were internationally competitive and then provided strong incentives to export. As a result, the state fostered the development of an internationally competitive private sector. The opinions of the interviews conducted would suggest that the majority of the private sector in Saudi Arabia is not internationally competitive and efficient. One of the main areas cited for the inefficiency was the continual protection and subsidies to certain sectors, the general consensus was if they are not removed than these sector will not become efficient. The favourable environment, especially of the 1970s with high levels of liquidity; the governments subsidised provision of land, electricity, etc.; and laws to prevent the level of international competition (such as needing a local sponsor for the selling of goods and services to submitting bids for government contracts) has meant that the private sector could grow without focusing on areas such as efficiency and management techniques. Consequently, the private sector is not able to compete internationally. As seen earlier in the thesis, the private sector has developed and grown since the early 1970s in areas of activity and independence from government spending. Despite this the ability of the private sector to compete internationally will be central to the future development of the private sector, with Saudi Arabia accession to the WTO. In addition, the private sector, as well as the economy on the whole, is still ultimately driven by oil revenue. The majority of the interviewees expressed grave concerns for the prospect of the private sector with the opening up of competition. Even those who agree with Saudi Arabia joining the WTO still recognise the need for the private sector to restructure and that many companies will not survive. The lack of development of the private sector has constrained economic development and will hinder future development. Furthermore, the undeveloped nature of the private sector places restriction on the prospects for private sector led development.

- Poor business environment. In the case of SAC, which sees a lesser role for the government than SSC, the role of the state is to provide a beneficial environment for the private sector. The views of the interviewees suggested that this is not being fulfilled in Saudi Arabia. This includes areas such as the education and legal system, government regulation, infrastructure, etc. The current state of these factors increase the costs and time wasted by the private sector and reduce efficiency. These factors also deter both private sector and international investment in Saudi

Arabia. These factors, if they are not addressed, will hinder future development of the country.

- A lack of embedded autonomy. One of the critical features of the developmental state is what Evans (1995:59) defined as "embedded autonomy". Evans (1995:73) further noted that in the case of Brazil and India, the state lost its ability to perform as it could not achieve the mix of autonomy and embeddedness.

Autonomy allows the state to follow goals of its own. As Chaudhry (1997:270) illustrated, with the downturn the economy in the 1980s, the government tried to re-institute taxes and cut government spending. These measures were blocked by the private sector and in fact the private sector was able to obtain greater entitlements. Evans (1995:72-3) suggested that one of the reasons the Brazilian state was not able modernise the economy was a result of their close relationship with the traditional oligarchy. The case of Saudi Arabia, with the oil boom and the development of the distributive state which was predominantly Nejdi, saw the creation of the new merchant elite from the same area. The traditional private sector saw their importance decline. Thus, a close relationship between the state and the private sector could be one of the reasons for the state not to have been able to implement the changes they wished to. Some of the interviewees suggested the failure of the state to respond to the economic downturn until the mid-1990s (subsidies were reduced in 1995) has had detrimental effects on the future development of the economy. As Looney (1996:40) noted about Saudi Arabia and other GCC oil economies:

> "Perhaps the greatest burden imposed by the oil boom years was the creation of an illusion that the oil bonanza would last indefinitely. This has resulted in governments being slow to adapt to the new realities of lower oil revenues."

The other feature crucial to developmental states is embeddedness, i.e. where the state and private sector continually interact in the formulation of policy, joint ventures, etc for development purposes. One of the main benefit of this is the important source of information and the ability to rely on the private sector to implement the goals. The interviews conducted would indicate that this has not been achieved in Saudi Arabia. On the whole, the interviewees indicated that the senior members of the royal family are very accessible to the private sector and that recently government members and top officials are taking the private sectors' views more into account. Although the interviewees noted that the old minister did not take into account the views of the private sector, even on issues that effect them. Despite the accessibility of the private sector, some of the interviewees expressed a view that there is not a full understanding of the needs of the private sector. In addition, there is not a well formulated co-operation between the government and the private sector in determining the private sector's role in development.

The areas mentioned above have hindered the development process of Saudi Arabia and need to be addressed for the future development of Saudi Arabia. The thesis has also illustrated the problems within the private sector that will place limits on the viability of private sector led development. These include the undeveloped nature of the private sector, which is still ultimately dependant on government spending and is not internationally competitive. The private sector needs to improve levels of efficiency and management capabilities. One of the factors that deleteriously affects the efficiency and productivity of the private sector is the business environment created by the state.

Appendix One

Questions For the Saudi Private Sector

1. The role of the private sector in economic development.

1. The Government has indicated that it wants the private sector to take the lead in economic development and diversification of the economy (recent Development Plans, Budgets, etc.). Do the private sector feel that they are ready to take the lead in economic development? If not what do they feel are the bottlenecks to this process?

2. How important are government subsidies, contract and spending for your investment decisions (with in Saudi Arabia)? What is the impact of the development of the capital market in your investment decisions? Which subsidies affect you the most?

3. Is there a reduction in the importance of subsidies and contracts in your investment decision making? How important was it historically – i.e. 1973 to the end 1980s?

4. The assumption is that the private sector is more efficient and dynamic than the public sector. Do you feel that they are more efficient than SOE? If not what are the reasons for the inefficiencies?

5. The top 100 Saudi Private Company Report mentioned, in its view, some problems faced by family companies (such as lack of survival instincts, dependence of the founder and break-up of the company into smaller units after the death of the founder). What problems do you feel the family company faces? What do you feel are the advantages of being a family company? Does your family have a succession plan?

6. Would you considered 'going public' with any of your companies? If so what are the main reasons? What do you see as the main advantages and disadvantages of going public?

7. How important are foreign partners , e.g. joint ventures? What are their main roles and what are the main benefits from their involvement, e.g. are their any gains in efficiency? What are the disadvantages of dealing with foreign partners?

2. Issues Related to the business environment.

8. There is a certain areas that the government need to provide (i.e. that would not be provided by the private sector) for a well functioning capitalist economy, such as:
   - adequate infrastructure;
   - an education system that provides the right skilled labour force;
   - good company judicial system; etc.

9. Do they feel that they are getting the required support from the government? In what areas would they like more direction form the government? Or what policy do the private sector feel is required by the state for this transitional period?

11. Do you feel that there more that the government can do to provide direction in the role of the private sector?

12. How important are overseas investments for your businesses? What are the main reasons for our overseas investments?

13. Are there any economic/political factors that make this region less attractive than other geographical reasons?

14. Do you feel that there is a lack of information? If so how does it affects economic development and investment decisions in Saudi Arabia?

3. The Private Sector's views on Economic Liberalisation and Saudiisation?

15. What are your views on Saudi Arabia joining the WTO? How will it affect you companies/businesses

16. Are you in favour of economic liberalisation in Saudi Arabia?

17. Do you feel that that a reduction in subsidies is an unfortunate necessity that the government has to take? In what ways will the reduction in subsidies affect your businesses? Do you feel that there will be any benefit to the private sector as a result of the reduction in subsidies? Do you feel that subsidies are required in certain areas.

18. Out of the companies that are proposed to be privatised and areas that the government wants to see greater private sector involvement, which sectors would you be interested to invest in? If so, what are the main factors that attract you to this sector?

19. Are you confident that the state will not interfere in the running of the SOEs after they have been privatised? What are the reasons that the government might have for intervening once these companies have been privatised?

20. How will privatisation change the state/private sector relationship? Will the private sector gain strength in the power balance and how will the government regulate the private sector?

21. What are your views on Saudiisation? Do they feel it will be detrimental for your businesses? If so in what way (will Saudiisation affect the efficiency of your businesses)?

22. Do you feel that there is a conflict between Saudiisation and policies that work towards economic liberalisation?

4. Links between the Private sector and the State.

23. Do the private sector feel that there are enough 'avenues' for the private sector to gain the attention of the state, to have their views heard? Is so does the state include the views of the private sector when making policy decisions?

24. What are these main channels?

25. How important are the Chambers of Commerce? (The aim of the Chambers of Commerce is to be a link between the private sector and state, and to promote the private sector).

5. Challenges faced by the private sector?

26. What are the main challenges that the private sector faces in the near future? What do you see as the main areas of growth in Saudi Arabia?

27. What are the main challenges faced by your company?

Appendix Two

The following tables give examples of companies with royal family involvement, thus illustrating the importance of the royal family in the economy.

Saudi Clay Pipes Manufacturing Company Ltd

Main Office: P. O. Box 6415. Riyadh- I 1442, tel, 476-9195, fax. 478-2458.

Notes: This company was entered in the Riyadh Commercial Register on 8.3.1398.

Capital: SR 40 million capital held by Saudi and foreign partners as follows:

1. SR 6,277,100 (15.69%) for Prince Faisal Ibn Abdul Aziz Ibn Faisal A1 Saud, businessman, Riyadh.
2. SR 2,352,900 (5.88%) for the Riyadh investment Co., represented by Abdullah Sulaiman A1-Dab'aan, businessman, Riyadh.
3. SR 470,500 (1.18%) for Abdullah Mohammad Al-Hogail, businessman, Riyadh
4. SR 9,072,200 (22.68%) for Abdullatif AI-Esa Group Co" represented by Abdul Muhsen Abdul Latif Al Esa civil engineer.
5. SR 3,697.200 (9.24%) for Saud Saad Al-Sayari, student, Riyadh.
6. SR I .896,000 (4,74%) for Adnan Hamza Bougari, student, Jeddah.
7. 7) SR 948,000 (2.3770) for' Amal Hamza Bougari, student, Jeddah.
8. SR 10.266,600 (25.67%) for the Nalional Industrialization Co.
9. SR 2,352,900 (5,88%) for Heinrich Wulfe, German businessman.
10. SR 2.352,900 (5 88%) for Deutschc .steinsweg Kramer Und Brauer, a German firm represented by Dr. Martin Hoffmann.
11. SR 313,700 (().7970) for Keramo Weinberger, a Belgian firm.

Source: Saudi Economic Survey -20- Aug 13,1997

Arabian Pipeline Services Company Ltd

Main Office: P.O. Box 26886, Riyadh-I 1496, Tel. 477-I 376, 478-4555, Fax.477-0349.

Notes: The company was established under the Foreign Capital Investment Code and entered in the books of the Riyadh Public Notary on 26.2.1405

Capital: SR 5 million capital held by two partners;

1. SR 4.5 million for Prince Khaled Ibn Fahed Ibn Abdul Aziz Al Saud, businessman, represented by the Legal Counsellor Nasser Ali Kadasah, Riyadh.
2. SR 500,000 for Dr. Fahed Abdul Rahman Al-Somait, engineer, represented by the Legal Counsellor Nasser Ali Kadasah.

M & M Company Ltd.

Main Office: P.O. Box 10514, Riyadh-1 1443, Tel. 477-8556, 488-831 l, Fax. 477-8529.

Notes: The company was recorded in the Riyadh Commercial Register on 4.4.1398:

Capital: SR 30 million capital of the company held by five Saudi partners

1. SR 16.5 million for Prince Khaled Ibn Fahed Ibn Abdul Aziz A1 Saud.
2. SR 3,857,000 for Imad Muwaffak Jameel Al-Maidani, 43 year old businessman, Marbella, Spain.
3. SR 3,857,000 for Aamer Muwaffak Jameel AI-Maidani, 38 year old businessman, Marbella, Spain.
4. SR 3,857,000 for Omar Muwaffak Jameel Al-Maidani, 21 year old strudent, Los Angeles, Cal.
5. SR 1,929,000 for Miss Myma Muwaffak Jameel AI-Maidani, 29 year old student, Los Angeles, Cal.

Al-Wedyan National Company for Food Products Ltd

Main Office: P.O. Box 19291, Jeddah-21435, TeUFax. 647-1967. Duration: 25 years.

Purpose: Engage in wholesale and retail trade in foodstuffs; and process, can and pack foods.

Capital: SR 18 million held by eight Saudi partners

1. SR 5.2 million for the National Industrialization Co. "NIC" represented by its Managing Director, Dr. Mahsoun Bahjat Jalal, P.O. Box 26707, Riyadh-1 1496.
2. SR 5 million for Prince Khaled Ibn Fahed Ibn Abdul Aziz AI Saud, proprietor of Al-Bilad Establishment for Trade and Economy, P.O. Box 13412, Riyadh-I 1471
3. SR 2 million for Fahed Mohammad Saleh Al-Azl, businessman, P.O. Box 4900, Riyadh-I 1412.
4. SR 2 million for Khaled Abdullah Mohammad Saleh Al-Azl, private sector employee, P.O. Box 21984, Riyadh-I 1485.
5. SR 1 million for Sa'eed Mohammad Basamh, businessman, P.O. Box 121, Riyadh-I 141 l.
6. SR 1 million for Ibrahim Abdul Aziz A1-Touq, businessman, P.O. Box 86, Riyadh-1 1411
7. SR 900,00(1 for Abdul Salam Mahmud Al-Zarrouq and Bros., P.O. Box 188, Madinah.
8. SR 900,000 for Mohammad Amin Jamil Dahlawi, businessman, P.O. Box 1522, Jeddah-21441

AI-Bilad Catalyst Company Ltd

Main Office: P.O. Box 10174, Jubail-31961, Tel. 341-0172, Fax. 341-6689.

Notes: This company was entered in the books of the Jubail Public Notary on 25.10.1412 by six Saudi and foreign partners in accordance with the Foreign Capital Investment Code and the Regulations for the Protection and Encouragement of National Industries.

Capital: SR 10 million held by six local and foreign partners

1. SR 2 million for Prince Khaled Ibn Fahed Ibn Abdul Aziz AI Saud, proprietor of Al-Bilad Est. for Trade and Economy.
2. SR 1.5 million for Fahed Mohammad Al-AzI, 50 year old businessman, Riyadh.
3. SR 750,000 for Dr. Fahed Abdul Rahman AI-Somait, 53 year old businessman, Riyadh.
4. SR 750,000 for Dr. Abdul Aziz Saleh Mansour Al-Jarbou, 51 year old businessman, Riyadh.
5. SR 2 million for the National Contracting Company, a Kuwaiti concem, Safat, Kuwait.
6. SR 3 million for the French firm Aerocat S.A., represented by the legal counselor Nasser Ali Mousa KadaSah.

Abdullah Al-Tuwaijri Co. (Al-Mashrek for Contracting)
(A General Partnership)

Office: P.O. Box 6108, Riyadh-1 1442, Tel. 478-0330,477-5355, Fax. 477-6906.

Notes: This company was entered in the Riyadh Commercial Register on 1.7.1395

Capital: SR 20 million capital held by four partners

1. SR 5.6 million (28%) for Abdullah Ibrahim Al-Tuwaijri, 67 year old businessman, Riyadh.
2. SR 4 million for Prince Sultan Ibn Mohammad Ibn Saud Al-Kabeer, businessman, Riyadh.
3. SR 5.2 million for Ibrahim Abdullah Ibrahim Al-Tuwaijri, 39 year old businessman, Riyadh.
4. SR 5.2 million for Abdul Salam Abdullah Ibrahim Al-Tuwaijri, 38 yea old businessman, Riyadh. Main

Al-Aziziyya Commercial Investment Company Ltd

Main Office: P.O. Box 91896, Riyadh-1 1643, Tel. 478-4200 Ext. 191, Fax. 478-9897. Duration: 25 years.

Purpose: Carry out the following activities:

1. Food processing, textile making, leather processing. woodworking, paper production, packaging and wrapping, chemical industries, chinaware and ceramics making, glass, clay, cement, gypsum, marble, iron, steel and non-iron minerals and metallic industries.
2. Wholesale and retail trade in computers and programs and their accessories.
3. Maintenance, repair, and operation of industrial, agricultural, electrical, and electronic machinery and equipment, printers, motor cars and trucks.
4. Agricultural and livestock production such as raising cattle and poultry, production of milk and its derivatives, eggs, honey, reclamation of agricultural land, and hunting.
5. Construction of public works, such as roads, water, sewage, electro-mechanical, industrial and marine works, dams, well-drilling, and maintenance and operation of buildings, airports, factories, electric power and desalination plants, gas networks, telephone networks hospitals and medical centers.
6. Act as commercial and distribution agents, cargo, import and export service.
7. Transport of passengers and goods other than postal parcels, storage and refrigeration services.
8. Lease machinery, equipment, motor cars, trucks, plant machinery, building equipment, and agricultural machinery.
9. Acquire and lease land for the erection of residential, administrative and commercial buildings thereon and exploit such buildings through sale or lease.
10. Establish and manage hotels, tourist villages, restaurants, and commercial and residential complexes.

Capital: SR 500 million held by eight Saudi partners

1. SR 150 million for Prince Al-Waleed Ibn Talal Ibn Abdul Aziz Al Saud.
2. SR 50 million for Al-Azizia Panda United Co., Riyadh.
3. SR 50 million for the Olayan Finance Company, Riyadh.
4. SR 50 million for Al-Saif Engineering Contractors: Proprietor Khaled Ibn Musa'ed Saif Al-Saif.
5. SR 50 million for Khalifa Ibn Abdul Muhsen Mohammad Al-Saif, businessman, Riyadh.
6. SR 50 million for Maan Ibn Abdul Wahed Abdul Majeed Al-Sane, businessman, Alkhobar.
7. SR 50 million for Saleh Ibn Ali Saud Al-Sagri, businessman, Riyadh.
8. SR 50 million for Abdul Qader Ibn Abdul Muhsen Ibrahim Al-Muhaideb, merchant Dammam.

Kingdom Trading Company Ltd

Main Office: P.O. Box 8653, Riyadh-1 1492, Tel. 488-111 l, Fax.481 -1954. Duration: 99 years.

Purpose: Engage in the following activities:

1. General contracting for buildings, roads, bridges, tunnels and dams.
2. Industrial works.
3. Wholesale and retail trade in building materials, foodstuffs, and metals for non-construction; and agricultural equipment.
4. Transport and storage services.
5. Advertising and publicity, import-export and marketing services.
6. Shipping services, Customs clearance of goods and commodities, testing and inspection.
7. Establish private schools and institutes and training centers.
8. Set up and operate hospitals and medical centers.
9. Acquire properties, real estate, and shopping malls.
10. Act as commercial agents.

Capital: SR 10 million held by two Saudi partners as follows:

1. SR 500,000 for Prince Al-Waleed Ibn Talal Ibn Abdul Aziz AI Saud.
2. SR 9.5 million for the Kingdom Holding Company.

Real Estate Investment Company Ltd

Main Office: Riyadh.

Purpose: Undertake the following activities:

1. General contracting for buildings (construction, repair, demolition and renovation).
2. Acquisition of land for the set up of residential and commercial buildings and investment thereof through sale or lease in cash or through instalments.
3. Establish and manage residential and recreational complexes.

Capital: SR 180 million held by the 13 Saudi partners as follows:

1. SR 80 million for Prince Al-Waleeb Ibn Talal Ibn Abdul Aziz Al Saud, businessman, P.O. Box 8653, Riy ad-1 1492, Tel. 488-1 1 1 I, Fax. 481-1954.
2. SR 20 million for Dr. Nasser Ibn Ibrahim Rasheed Al-Rasheed, businessman, P.O. Box 4354, Riyadh11491.
3. SR 20 million for Maan Abdul Wahed Abdul Majeed Al-Sane, businessman, P.O. Box 3250, Akhobar31952.
4. SR 10 million for Yahya Mohammad Awadh Binladen, industrial engineer, P.O. Box 8918, Jeddah-2 1492.
5. SR 10 million for Abdullah Ibrahim Al-Khorayef Sons Co., owned by Ibrahim Abdullah Al-Khorayef and Bros., P.O. Box 305, Riyadh- 1 141 l.
6. SR 5 million for Iohar Real Estate Investment Company, P.O. Box 41139, Riyadh-11521.
7. SR 5 million for Hamad Ibn Mohammad Abdullah Ibn Saeedan, businessman, P.O. Box 2879, Riyadh11461.
8. SR 5 million for Ibrahim Ibn Mohammad Ibn Abdullah Ibn Saeedan, businessman, P.O. Box 4050, Riyadh-11491.
9. SR 5 million for Aziz Company for Contracting and Medical Services Ltd., P.O. Box 1459, Riyadh 11431.
10. SR 5 million for Muss'ed Al-Seif & Sons Co. Ltd., P.O. Box 2774, Riyadh- 11461.
11. SR S million for Mohammad Muss'ed Seif Al-Seif, businessman, P.O. Box 25639, Riyadh-1 1466.
12. SR 5 million for Abdul Aziz Ibrahim Abdul Aziz Al-Iammaz, businessman, P.O. Box 4310, Riyadhl 1491.
13. SR 5 million for Abdullah Ulaisha Suwaider Al-Oufi Al-Harbi, businessman, P.O. Box 5750, Riyadhl 1432.

Saudi Economic Survey -10- February 26,1997.

Nesma-Almabani Medical Services Co Ltd

Main Office: Alkhobar (P.O. Box 1498. Alkhobar-31952, Tel. Jeddah: att: Mr. Omar Bakhran, Tel. 6724775, 672-2460).

Purpose: Maintenance and operation of hospitals, medical centers and clinics; trade in medical appliances and equipment and their spare parts, and maintenance and installation of same; and act as commercial agents.

Capital: SR 2 million held by three Saudi partners:

1. SR 200,000 for Prince Abdul Aziz Ibn Ahmad Ibn Abdul Aziz Al Saud, businessman.
2. SR 1.2 million for Nesma Co. Ltd, representated by Ali Abdul Mubsin AI-Turki, businessman, Dammam.
3. SR 600,000 for Almabani General Contractors, represented by its general manager. Ne'meh Yousef To'meh, a Lebanese.

AI-Jazirah Livestock Trading Company Ltd.

Purpose: Engage in the following activities:

1. Raise ostriches of various kinds and production and hatching of ostrich eggs.
2. Wholesale and retail trade in ostrich hatcheries and incubators and maintenance and installation of such equipment.
3. Trade in ostrich skins and hides after tanning them and benefit from their feather.
4. Prepare and process feeds for ostriches, livestock and poultry.
5. Wholesale and retail trade in ostrich, animal and poultry feeds. and ostrich meat, eggs and various products. 6) Act as commercial agents in this line of business.
6. Acquire land for the set up of ostrich farms for development and exploitation through sale or lease.

Capital: SR 1 million held by nine Saudi partners

1. SR 266,000 for Prince Faisal Ibn Turki Ibn Faisal Ibn Abdul Aziz Al Saud.
2. SR 266,000 for Prince Sultan Ibn Bandar Ibn Faisal Ibn Abdul Aziz AI Saud.
3. SR 52,000 for Princess Louloua Bint Faisal Ibn Abdul Aziz Al Saud.
4. SR 52,000 for Princess Haifa Bint Faisal Ibn Abdul Aziz Al Saud.
5. SR 104,000 for Sheikh Kamal Ibrahim Adham.
6. SR 104,000 for Mrs. lihan Adnan ~utbi.
7. SR 52,000 for Fahed Abdul Rahman Al-Sulaiman.
8. SR 52,000 for Kamal Hussain Ismael Shukri.
9. SR 52,000 for Mohammad Habeeb Babay Al-Bukhari. Main office: Riyadh

Saudi Economic Survey -19- June 26,1996.

Saudi Industrial Venture Capital Group
(Closed Joint Stock company)

Main office: P.O. BOX 99833, Riyadh-1 1~25, Tel. 462-6909, Fax, 464-3473, Duration: 50 years.

Purpose: Develop the industrial base in the Kingdom especially petrochemical industries and open channels for their exports to foreign markets, and pave the way for the private sector to enter into other industries through exploitation of the petrochemical industry products.

Capital: SR 424,485,200 divided into 4,244,852 shares at a par value of SR 100. The 66 founders of the company have fully subscribed to the company's capital and have paid up 25% of the capital or SR 106,121,300. The founders' share in the capital was as follows:

1. SR 8,235,300 for Ahmad Hamad A1-Gusaibi 8c Bros.
2. SR 5 millian foc Ismael Ali Abu Dawood, Jeddah.
3. SR 5 million for Abdul Raouf Mohammad Saleh Abuzinadah, Jeddah.
4. SR 8,161,700 for Salem Ahmad Saeed Bugshan, leddah.
5. SR 5 million for Abdullah & Saeed Mohammad Ubaid Binzagr, Jeddah.
6. SR 8,141,7p0 for Sulaiman Abdul Aziz Ai-Rajhi, Riyadh.
7. SR 8,235,300 foc Saleh Abdul Aziz Saleh Ai-Rajhi, Riyadh.
8. SR 5 million far Abdul Aziz A1-Abdullah Al-Sulaiman, Jeddah.
9. SR 8,235,300 for Ibrahim Ibn Abdul Aziz Al-Touq, P.O. Box 86, Riyadh- I 141 l.
10. SR 8,235,300 for Omran Mohammad Abdul Rahman A1-Omran, businessman, P.O. Box 91929, Riyadh11430.
11. SR 8,235,300 for Mohammad Abdul Rahman Othman AI-Freih, businessman, P.O. Box 792, Riyadh11421.
12. SR 5 million for Ibrahim Ali Mohammad A1-Qar'awi, P.O. Box 6265, Riyadh-1 1442.
13. SR 5 million for Abdul Qader Mohammad Abdullah Al-Fadl, P.O. Box 82,Jeddah-214 1 l.
14. SR 5 million for Abdullah & Abdul Aziz Kanoo (Yusuf Ben Ahmad Kanoo).
15. SR 5 million for Prince Abdullah A1-Faisal Ibn Abdul Aziz A1 Saud, P.O. Box 2728, Riyadh-I 1461.
16. SR 5 million for Fahed Mohammad Ibn Saleh AI-Az], P.O. BOX 4900, Riyadh.
17. SR 8,161,700 for Dr. Fahed Ibn Abdullah A1-Somail, engineer, P.O. BOX 3412, Riyadh- 11471.
18. SR 5 million for Saad Mohammad Ibn Abdul Aziz Al-Moajil, P.O. BOX 53, Dammam.
19. SR 8,~35.300 for Hamad Abdullah A1-Zamil & Bros, P,(). BOX 9, Alkhobar.
20. SR 20,000 for Fahed Ibn Sulaiman Abdul Aziz Saleh A1-Rajhi, Riyadh.
21. SR 8,235,300 for Ali Zaid A1-Quraishi & Bros, P. C). BOX 1848, Riyadh-1 1441.
22. SR 13,308,900 for the National Industrialization Company, P. C). BOX 26707, Riyadh-1 1496.
23. SR 5 million for Olayan Finance Company, P.O. Box 8772, Riyadh.
24. SR 5 million for Saleh Abdullah Ibrahim A1-Fadl, P.O. BOX 132, Dammam-314 I 1.
25. SR 5 million for the Saudi Amoudi Group CO., P.(1. BOX] 3271, Jeddah-21493.
26. SR 8,161,700 for Al-Esaye United Co. for Trade & Industry, P.O. Box 3035,Jeddah-21471.
27. SR 2.5 million for Ibrahim Mohammad Ibn Sa'edan, P.(). BOX 4050, Riyadh- I 1491.
28. SR 8,235,300 for Mahmud Saeed CO., owned by Mahmoud Mohammad Saeed Qassim & Partner, P.O. Box 1784, Jeddah-21441.
29. SR 5 million for Abdullah Abbar & Ahmad Zainy (Abbar & Zainy), P.(). Box 5700, Jeddah-21432.
30. SR 2.5 million for Mohammad Ibn Ibrahim Ibn Abdullah Al-Ghamdi, P.(3. Box 3684,Jeddah-21481.
31. SR 2.5 million for Ibrahim Abdul Rahman Abdul Aziz Ibn Salman. P.O. Box 15269, Riyadh-1 1444.
32. SR 8,235,300 for Ali Ibn Hussein Ibn Musallam, P.(). BOX 40094, Jeddah-21499.
33. SR 8,161,700 for Prince Abdullah Ibn Turki Ibn Abdul Aziz A1 Saud, P.O. Box 13331, Jeddah-21493.
34. SR 8,161,700 for Prince Bandar Ibn Abdullah bin Turki Ibn Abdul Aziz, P.O. Box 13331, Jeddah-21493.
35. SR 5 million for Ahmad Nasser AI-Binali & sons CO. for Trade & Contracting, P.O. Box 2, Dammam31411.
36. SR 5 million for Prince Mansour Ibm Mit'eb Ibn Abdul Aziz Al Saud, P.O. BOX 19517, Jeddah-21445.
37. SR 5 million for Prince Abdul Aziz Ibn Mit'eb Ibn Abdul Aziz, P. C). BOX 19517. Jeddah-21445.
38. SR 8,235,300 for Sulaiman Ibn Mohammad Abdullah Balghonaim, P.O. Box 35, Hofuf3 1982.
39. SR 8,235,300 for Jamal Ahmad Salem Bin Mahfouz, Jeddah, Tel. 636-0020.
40. SR 5 million for Taimur Abduliah Abdul Ghaffar Alireza, P.O. BOX 996, Riyadh- 11421.
41. SR 5 million for Abdul Hadi A1-Qahtani & Partners for Marine and petroleum Services, Dammam.
42. SR 8,235,300 for Khaled Balghonaim & Partners, Jeddah.
43. SR 5,735,300 for Ali Abdullah A1-Juffali, P. C). BOX 1049, Jeddah-21431.
44. SR 8,235,300 for Waleed Ahmad Abdullah A1-Juffali, P.O. BOX It)49, Jeddah-2 1431.
45. SR 5 million for Abdul Aziz Ibn Ibrahim Al-Ibrahim, P.O. BOX 1955, Riyadh-1 1441.
46. SR 5 million for Abdul Latif A1-Ali AI-Issa, P.O. BOX 192, Alkhobar-3 1952.
47. SR 5 million for Mohammad Nour Nasser Rahimi, Jeddah.
48. SR 5 million for Saad Abdul Aziz Ibn Abdul Rahman Al-Ruwaisfredl Riyadh.
49. SR 5 million for Rana Investment Co., P.O. BOX 60148, Riyadh- I 1545, represented by Omar Abdul Fattah Al-Aqqad.
50. SR 5 million for Rushdi Mahmud Mohammad Saeed Qassim, P.O. BOX 17013, Jeddah-2 1482.
51. SR 5 million for Jamal Abdul Khaleq Mohammad Saeed, P. C). BOX 1794, Jeddah-2 1441,

52. SR 5 million for Khaled Ibrahim Abdul Aziz A1-Ibrahim, Riyadh.
53. SR 5 million for Mohammad Saad Ibn tbrahim AJ-Bawardi, P.O. BOX] 12, Dammam-3 141 1.
54. SR 5 million for A1-Hasa Development Co., P.O. Box 2726, Hasa-3 1982.
55. SR 5 million for Khaled Al-Nasser Al-Turki, Saudi Arabian Consulate, Rome, Italy.
56. SR 5 million for Prince Talal Ibn Abdul Aziz A1 Saud, P.O. BOX 3252, Riyadh- I 1471.
57. SR 5 million for Abdul Aziz & Mohammad Abdullah A1-Jomaih, Riyadh.
58. SR S million for Abdullah Abdul Aziz Saleh AI-Rajhi, P. C). BOX 242, Riyadh- I 141 I.
59. SR 5 million for Zahid for Industry & Investment, P.O. BOX 8928, Jedduh-2 1492.
60. SR 13,41 1,900 for the Saudi Pharmaceutical industries and Medical Appliances Corp., P.O. BOX 20001, Riyadh-1 1455.
61. SR 5 million for Abdul Aziz Mohammad A]-Abdul Qader; P. C). BOX 2468, Riyadh- I 1451.
62. SR 5 million for Mohammad & Ibrahim Al-SuJaiman Al-Qadhi, P.O. Box 201, Dammam-314 I I.
63. SR 2.5 million for Hatem Ali Abdu]lah Al-Jutiali, Jeddah.
64. SR 1 million for Sulaiman Mohammad Abdullah A1-Mandeel, Riyadh.
65. SR 40 million for Saudi Arabian Refineries CO. (Sarco), p.o. BOX I I 13, Jeddah-2 1431, represented by Prince Khaled Ibn Turki Ibn Abdul Aziz.
66. SR 5 million for Saudi Ceramic Company, Riyadh.

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Masstock AI-Kharj Ltd
(Al Kharj Livestock Breeding Co)

Main Office: P.O.Box 5996, Riyadh-I 1432.

Notes: The company was entered in the Riyadh Commercial Registry on 23.7.1401

Purpose: The article dealing with the company's objectives has also been modified to become "Raising cows for producilon and sale of cows' milk and cows and calves.

Capital: The SR 4,894,000 capital is held by two partners

1. SR 3,425,800 for Prince Sultan lbn Mohammad Ibn Saud Al-Kabeer.
2. SR I .468,200 for AI-Marai Trading Company.

Saudi White Cement Company (Saudi Joint Stock Company)

Main Office: P.O. Box 58169, Riyadh-1 1594, Tel. 464-0168,463-2930, Fax. 465-8517.

Purpose: Production of white cement in accordance with the Industrial Ministerial Decree No. 494/S dated 25.6.1414;

1. wholesale and retail trade in the company's products and in building materials
2. establishment or participation in the set up of industrial services companies to provide maintenance and services to factories inside and outside the Kingdom
3. management and operation of white cement factories
4. acquisition of real estate and patents and exploit them in attaining the company's objectives inside and outside the Kingdom; set up and participation in the SCl up of companies that complement the company's activities and commercial agencies.

Capital: SR 300 million divided into three million shares with a par value of SR 100, The founders have subscribed to the entire shares of the company and paid up 25% of the share's value or SR 75 million. Value of the shareholdings and the founders;

1. SR 50 million for Prince Faisal Ibn Abdul Majeed Ibn Abdul Aziz A1 Saud.
2. SR 14 million for Prince Abdul Aziz Ibn Met'eb Ibn Abdul Aziz A1 Saud.
3. SR 1 million for Prince Faisal bin Ahmad W. Abdul Aziz A1 Saud.
4. SR 1 million for Prince Abdullah Ibn Mohammad Ibn Abdul Aziz A1 Saud.
5. SR 10 million for Al-Mukhtar Mohammad Qasem Balloul.
6. SR 1.5 million for Khaled Ibrahim Abdul Aziz Al-Ibrahlm.
7. SR 500,000 for Dakheel Ibrahim Rashed Al-Humaidhi.
8. SR I million for Abdullah Ibn Abdul Rahman Al-Mousa.
9. SR 10 million for the Eastern Province Cement Company.
10. SR 1 million for Abdullah Abdul Latif Al-Melhem.
11. SR 1 million far Ibrahim Yousef Ibrahim Al-Muhammad.
12. SR 1.5 million for Fahed Ibn Zayed Ibn Fahed Al-Sukaibi.
13. SR 1.3 million far Khaled Ibn Abdul Rahman Basheer A1-Sukaibi.
14. SR 1 million for Abdullah Mohammad Husain Al-Nimr.
15. SR 1 million for Hassan Mohammad Hussain A1-Nimr
16. SR 400,000 for Maan Abdullah Omar Ibrahim Bari.
17. SR 400.000 for Saleh Abdullah Saleh Fada'eli.
18. SR 1 million for Abdul Aziz Abdullah Hamad Al-Mousa.
19. SR 1 million for Saad Abdullah Hamad Al-Mousa.
20. SR 1.5 millian for Mansour Ibrahim Yousef Badr.
21. SR 400.000 for Mohammad Abdullah Mohammad Ibrahim Al-Hammad.
22. SR 1 million for Hamad Mohammad Mousa Al-.Mousa.
23. SR 1.5 million for Abdul Latif Ahmad Abdul Latif Al-Fouzan.
24. SR 1.5 million for Mohammad Abdul Aziz Omair Al-Omair.
25. SR 2.2 million for Omair Abdul Aziz Omair Al-Omair.
26. SR 1 million for Abdullah Ali Saleh Al-Naim.
27. SR 1,5 lmillion for Nourah Hussain Ali A1-Assaf.
28. SR I million for Manal Abdullah Ali Salch A1-Naim.
29. SR 1 million for Mohammad Ameen Mohammad Jameel Al-Dahlawi.
30. SR I million for Hassan Mohammad Jameel Ai-Dah Jawi.
31. SR 1 million for Ruqayya Abdul Rahcem Al-Ma'ena.
32. SR 250,000 for Mohammad Ibrahim Mohammad Haroun Dahlawi.
33. SR 250,000 for Mohammad Jamcel Mohammad Hamun Dahtawi.
34. SR I million for Mohammad Abdul Rahman Othman A1-Fcraih.
35. SR I million for Najecb Ishaq A1-Kouhaji.
36. SR 1 million for Nasser Ibn Hamad Abdul Muhsen Al-Mangour.
37. SR 1 million for Nasser Abdullah Mohammad Al-Khafra Al-Dousari.
38. SR 500,000 for Mohammad Abdullah Mohammad Al-Bul?.ihcd.
39. SR 500,000 for Fahed Abdullah Mohammad Al-Bulaihed.
40. SR 1 million for Shalhoub Saleh Shalhoub Al Shalhoub.
41. 41) SR 400,000 for Fahed Abdullah Fahed Al-Mushref.
42. SR 400,000 for Ibrahim Abdullah Fahed Al-Mushref.
43. SR 500,000 for Abdullah Mohammad Sulaiman Al-Qadhi.
44. SR 500,000 for Abdul Aziz Mohammad Sulaiman Al-Qadhi.
45. SR 500,000 for Ahmad Mohammad Sulaiman Al-Qadhi.
46. SR 400,000 for Abdul Rahman Mohammad Sulaiman A1-Qadhi.
47. SR 1.3 million for Abdullah Rashed Mohammad Abunayyan.

48. SR 2 million for Abdul Qader Al-Muhaideb 8c Sons.
49. SR 400,000 for Abdullah Abdul Azeem Abdul laleel Khoja.
50. SR 850,000 for Kamal Saber Mohammad Saber.
51. SR 2 million for Issam Fahmi Mohammad A1-Hash-shani.
52. SR 1.5 million for Ahmad Rashed Sa'eed Al-Dousari.
53. SR 1 million for Hani Ibrahim Abdu) Rahman Dawood.
54. SR 500,000 for Mohammad Nour Nasser Rahimi.
55. SR 500,000 for Othman Mohammad Othman Al-Rasheed.
56. SR 1 million for Nahedh Mohammad A1-Tajal.
57. SR 500,0Q0 for Abdul Aziz Hamad Abdullah A1-Rashed.
58. SR 1 million for Abdul Rahman Hamad Ibn Mousa.
59. SR 1.5 million for Sa'eed Mohammad Sa'eed Basamh.
60. SR 3.4 million for Faraj Abdul Rahman Mutlaq Al-Sa'egh.
61. SR 1.3 million for Saleh Abdullah Abdul Aziz Al-Medaifer.
62. SR 1.5 million for Al-Ta'meer Company Ltd.
63. SR 2.3 million for Fahed Ibrahim Al-Megbel Sons Company Ltd.
64. SR 2.2 million for Abdul Aziz & Mohammad Abdullah Al-Jomaih.
65. SR 3.8 million for Mahmoud Saeed General Partnership.
66. SR 2.2 million for Saleh Al-Mutlaq Al-Henaki Trading Co.
67. SR 500,000 for Abdul Aziz Sulaiman Al-Ghonaim (Al-Ghonaim Bros. for Trade & Contracting).
68. SR 1 million for A1-Dahlawi Co., owned by Mohammad Ameen Mohammad Jameel Dahlawi & Partners.
69. SR 1,3 million for Mohammad & Nasser Abdullah Al-Khafra Co.
70. SR 1.2 million for Ahdul Aziz 8c Mohammad Abdul Latif A1-Jabr (A1-Jabr Trading Co.).
71. SR 1 million lor Al-Jazirah Markets Company Ltd.
72. SR 500,000 for Mohammad 8c Ibrahim Al-Sulaiman A1-Qadhi.
73. SR 15 million for the Saudi Installment Company.
74. SR 20 million for Rawafed Holding Company.
75. SR 1.3 million for Yousef Abdul Sattar Qasem Al-Maimani.
76. SR 3.8 million for Hassan A]i Hassan Al-Sairafi.
77. SR 1 million for Abdullah Abdul Aziz Al-Munifi.
78. SR 1 million for Sami Abdullah Abdul Aziz Al-Munifi.
79. SR 2 million for Khalifah Abdul Latif Al-Melhem.
80. SR 2 million for Khaled Abdul Latif Al-Melhem.
81. SR 400,000 for Mazen Abdul Aziz Ai-Doukhi.
82. SR 1 million for the Saudi Investment and Markeling Group Ltd. (Sigmac).
83. SR 2 million for Abdul Sattm Qasem A1-Maimani.
84. SR 400,000 for Abdul Aziz ?yloilamnlad othman A1-Rasheed.
85. SK 1.:, million for Kholcd Huswin Ali Al-Assaf.
86. SR 1 million for Ibl:hinl Ahtiu~ Rahman Ibn Saiman.
87. SR 1 million for Khaled Abdul Sattar Al-Maimani.
88. SR 400;000 for Zuhair Ahmad Ameen Bushnaq.
89. SR 2 million for Saad Ibrahim Abciul Aziz Al-Me'jel.
90. SR 400,000 for Saad Hamad Hammad A1-Khaldi.
91. SR 1 million for Saad Hamad Abdul Muhsen Al-Mangour.
92. SR 1 million for Fareed Abdul Sattar Al-Maimani.
93. SR 500,000 for Salman Mohammad A1-Kha&ah.
94. SR 1 million for Saleh Ibn Abdullah Al-Rajhi.
95. SR 1 million for Saleh Mohammad Ibrahim Al-Rajhi.
96. SR 1 million for Ahmad Zamil Saleh Al-Zamil Al-Solaim.
97. SR 1 million for Sadruddin Qari Samarqandi.
98. SR 3 million for Abdullah Abbar & Ahmad Zaini.
99. SR 1 million for [brahim Mohammad Al-Sultan.
100. SR I million for Adel Taha Abdullah Bakhsh.
101. SR 800,000 for Amer Hamad AI Hussein A1-Dousari.
102. SR 2 million for Abdullah Bakur Abdullah Radwan.
103. SR 1.2 million for Abdul Rahman Ibn Mohammad Al-Abdul Karim.
104. SR 1 million for Abdul Aziz Ali Al-Sulaiman A1-Zamil.
105. SR 1 million for Amer Awwadh Luwaiheq Al-Mutairi.
106. SR 500,000 for Abdul Aziz Saad Fahed Al-Kraidess.
107. SR 3.8 million for Abdul Muhsen A1-Muhaisen & Sons Holding Co.
108. SR 3.8 million for Abdul Karim Abdul Aziz A1-Kberaiji.
109. SR 2.2 million for Building Materials Co. for Trade, Industry & Contracting (A1-Mudaifer).
110. SR 1 million for Ishaq Abdul Kanm Ghulam Afghani.
111. SR 1.55 million for Ahmad Mohammad Qasem Balloul.
112. SR 700,000 for Abdullah Ibn Fahed Al-Thnayyan.
113. SR 3.8 million for Abdullah Salem Bahamdan.
114. SR 1 million for Abduliah Amer Muraish Al-Nahdi.
115. SR 1.3 million for Abdullah Omar Meihed A1-Huraish.
116. SR I million for Ibrahim Mohammad Abdullah Sa'edan.
117. SR 500,000 for Abdullah Mohammad Abdullah A1-Khafrah.

118. SR 2 million for Khalcd Abdul Latif Al-Melhem & Bros.
119. SR 1.3 million for Thnayyan Ibn Fahed Al-Thnayyan.
120. SR 3.8]million for Ammar Abdul Aziz Ali Al-Tuwaijri.
121. SR 1 million for Abdul Muhscn Hamad Al-Mangour.
122. SR 1 million for Ghazi Abdul Sattar Al-Maimani.
123. SR 1.5 Imillion for Assal Hussain Ali Al-Assaf.
124. SR 3.8 million for Ali Ahmad Abdul Rahman Al-Kaaf.
125. SR 1.5 million for Ali Mohammad Jumai'ah Al-Jumai'ah.
126. SR 2.2 million for Abdul Aziz & Saad Al-Mejel Company,
127. SR 1.2 million for Sameeha Taqi Saleh Khashogji.
128. SR 500,000 for Khaled Abdullah Abdul Aziz Al-Shaqri.
129. SR 1 million for Fouad Abdul Wahhab Bahrawi.
130. SR 1.5 million for Fahed Hussain Ali Al-Assaf.
131. SR 500.Q00 for Faisal Mohammad Al-Khafrah.
132. SR 2.2 million for lhe Saudi Binladen Group Co. (Bakur Mohamrnad Ibn Laden &. Bros).
133. SR 1 million for Mohammad Ibrahim Mansour Al-Sheeha.
134. SR 1 million for Mohammad Ahmad Al-Fayez Al-Ashri.
135. SR 500,000 for Abdullah Nasser Al-Rajhi.
136. SR 6.5 millii)n for Mohammad Hussain Ali Al-Amoudi.
137. SR 1,3 million for Mohammad & Abdullah Sulaiman Al-Saadi Co.
138. SR I million l'or Mohammad Abdullah Al-Khal'rah.
139. SR 1 million for Mohammad Abdullah Saleh Al-Hazloul.
140. SR 1.3 million for Mohammad Abdullah Abdul Latif Al-Faraj.
141. SR 1 million for Mohammad Ali Mir Ahmad Tashkendi.
142. SR 1 million for Al-Asemah Company Ltd.
143. SR I million for Basem Abdullah Al-Fayez.
144. SR 1 million for Mohammad Hassan Mustapha Daqqaq.
145. SR I million for Fawzia Mustapha Rajab Ahmad.
146. SR 1 million for Iyad Ameen Abdullah Madani.
147. SR 1 million for Khaled Abdul Fattah Kurdi.
148. SR 300,000 for Mohammad Abdullah Fahed Al-Thnayyan.
149. SR 500,000 for Wafaa Ibrahim Abdul Qader.

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Al-Bilad Silvani Fire Fighting Co. Ltd
(Al-Bilad Fire Fighting Systems Co)

Main Office: Alkhobar (P.O. Box 694, Dhahran-AIP-3 t932, Tel. 842-4908, 842-4601,

Capital: SR 1 1,250,000 equally held by two Saudi partners;

1. SR 5,625,000 for HRH Prince Khalid Ibn Fahed Ibn Abdul Aziz, Prop. of Al-Bilad Est.
2. SR 5,625,000 for Fahed Mohammed Saleh Al-Adhl of Riyadh.

Mohammed All Abu Dawood & Partners Trading Industry Co.
(Ajoint liability partnership)

Main Office: Jeddah (P.O. Box 2520, Jeddah-Z 1461, Tel. 643-2481). **5834.**

Notes: The present firm was established in Jeddah in 1391H under Commercial Registeration No. 403000-6751 as a joint liability partnership

Capital: SR 10,400,000 held by one foreign and two Saudi partners

1. SR 3,120,000 for Ismail Ali Abu Dawood.
2. SR 4,160,000 for Eng. Hussein Ali Abu Dawood.
3. SR 3,120,000 for Clorox (Cayman Islands) Ltd.

Taibah Agricultural Development Co. Ltd

Main Office: P.O.Box 5335, Madinah, Tel. 848-1900, Fax. 848-2336. Duration: 50 years. 6451.

Purpose:
1. Agricultural production through cultivation of field crops
2. animal production including raising sheep, production of milk and by-products
3. raising poultry, egg production, maintaining apiaries and honey production and establishing hatcheries
4. fishing and fish farming
5. extension of agricultural and animal services including combat of agricultural pests, maintènance and landscaping of gardens and parks
6. taking care of livestock, poultry and apiaries
7. lease of agricultural machinery; maintenance and operation of agricultural projects; installation and maintenance of grain silos, irrigation equipment, and green houses
8. extension of agricultural commercial services such as marketing for third parties and obtain agri agencies; wholesale and retail trade in grains, wheat, rice, maize, dates, vegetables, fivits, legumes, seeds, flowers and decorative
9. plants, saplings, feeds, cattle, poultry and fish, eggs, meats, processed fish, animal residues, leather and wool, dairy products, animal ghee, spices, agricultural machinery and equipment such as water pumps, sprinklers, drip equipment, fishing gear, poultry raising articles and equipment, chemicals, medicines, insecticides, fertilizers, bags and ropes.
10. The company will also engage in food processing of dairy products, preparation and preservation of animal and poultry meats, fruits, vegetables, legumes, fruitjuices, vegetable and animal oils and ghee, date packing, packing and preservation of fish, and animal and birds feeds; and provide coldstorage and warehousing facilities for storage of foods.

Capital: SR 50 million held by 49 partners

1. SR 2 million for Prince Mish'al Ibn Abdul Aziz Al Saud.
2. SR 1 million for Prince Faisal Ibn Abdul Majeed Ibn Abdul Aziz Al Saud.
3. SR 500,000 for Ibrahim Hamad Ibrahim Al-Wuqaisi, P.O.Box 293, Madinah.

4. SR 500,000 for Ibrahim Hamad Abdullah Ibn Saleem; P.O.Box 9054, Riyadh-1 1413.
5. SR 1 million for Ibrahim Saeed Ahmad Al-Amoudi, P.O.Box 316, Madinah.
6. SR 600,000 for Ibrahim Ibn Abdul Rahman Ibn Abdul Aziz Ibn Salman, businessman, P.O.Box 15269, Riyadh-1 1444.
7. SR 500,000 for Ibrahim Ibn Mohammad Ibn Abdullah Ibn Saeedaan, businessman, P.O.Box 4050, Riyadh-1 1491.
8. SR 500,000 for Ahmad Saeed Al-Ghamdi, merchant, P.O.Box 624, Madinah.
9. SR 500,000 for Ahmad Ibn Mohammad Ibn Abdul Rahman Al-Sheikh, merchant, P.O.Box 43162, Riyadh-1 1561
10. SR 500,000 for Mrs Badya Nasser Abdullah Al-Ageel, housewife, P.O.Box 689, Jeddah-21421
11. SR 500,000 for Hamed Ali Hamdallah Hamdallah, businessman, P.O.Box 3171, Madinah.
12. SR 500,000 for Khaled Hamza Ibrahim Ghouth, businessman, P.O.Box 3799, Madinah.
13. SR 500,000 for Rasheed Rasheed Nader Al~Saa?edi, merchant, P.O.Box 1398, Madinah.
14. SR 500,000 for Zeyad Khaled Mohammad Al-Nuzha, businessman, P.O.Box 1717, Madinah.
15. SR 500,000 for Shalhoub Saleh Shalhoub Al-Shalhoub, businessman, P.O.Box 8298, Riyadh-1 1482.
16. SR 500,000 for Saleh Sulaiman Al-Hamad Al-Sulaiman, merchant, P.O.Box 4659, Jeddah.
17. SR 500,000 for Salahuddin Yousuf Hamza Abdul Jawwad, merchant, P.O.Box 139, Jeddah-2141 1.
18. SR 500,000 for Dr. Tareq Mohammad Ali Khaled Al-Shawwaf engineer, P.O.Box 2341, Riyadh11451~
19. SR 1 million for Dr. Tareq Nasser Abdullah Al-Ageel, merchant P.O.Box 7499, Jeddah-21462.
20. SR 500,000 for Abdul Rahman Ibrahim Abdul Rahman Mufti, general dealer, P.O.Box 5010, Madinah.
21. SR 500,000 for Abdul Rahman Saahl Joudallah Al-Ruhaili, merchant, P.O.Box 1571, Madinah.
22. SR 500~000 for Abdu Mohammad Saeed Al-Daftardar, merchant, P.O.Box 4035, Madinah.
23. SR 500,000 for Abdu Sattar assim Yousuf Maimani, businessman, P.O.Box 2333, Madinah.
24. SR 500,000 for Abdul aour Moh ammad Amin Basheer, retired civil servant, P.O.Box 685, Taif.
25. SR 500,000 for Abdul Aziz Mu?alla Olayyan Al-Sahli, dealer, P.O.Box 7238, Jeddah-21462.
26. SRS00,000 for Abdul Aziz Mohammad Othman Daghistani, chartered accountant, P.O.Box 3736, Riyadh-1 1481
27. SR I million for Abdul Aziz Nasser Abdul Aziz Musained, dealer, P.O~Box 54361, Riyadh-1 1514.
28. SR 500,000 for Abdullah Yousuf Abdullah Al-Yousuf, businessman, P.O.Box 78, Taif.
29. SR 500,000 for Othman Hamad Hamdaan Al-Sulaiman, businessman, P.O.Box 1347, Jeddah-21431.
30. SR 500,000 for Mrs Awatef Othman Abdul Qader Hafiz, housewife, P.O.Box 15488, Jeddah-21444.
31. SR 500,000 for Ghaddaf Saleem Salim Al-Luqmani, merchant, P.O.Box 828, Madinah.
32. SR 500,000 for Fouad Abdullah Hussein Al-Shareef, businessman, P.O.Box 2761, Madinah.
33. SR I million for Fahed Mohammad Al-Saleh Al-Azl, businessman, P.O.Box 4900, Riyadh-1 1412.
34. SR 1 million for Mohammad Ibn Hamza Ibn Mohammad Ibn Oun, businessman, P.O.Box 1743, Jeddah-21441.
35. SR 500,000 for Mohammad Hameed Saleh Ibn Sagheer Al-Urwi, businessman, P.O.Box 60, Yanbu Al-Bahar.
36. SR 500,000 for Mohammad Abdullah Ibn Abdul Latif Al-Faraj, merchant, P.O.Box 403, Dammam31411
37. SR I million for Mohammad Abdullah Mohsen Zaree, merchant, P.O.Box 1799, Alkhobar-31962.
38. SR 1 million for Nayel Mash-hour Ali Al-Harithi, retired engineer, P.O.Box 20592, Madinah.
39. SR 500,000 for Nughaimesh Hamed Mohammad Al-Ahmadi, merchant, P.O.Box 172, Madinah.
40. SR 500,000 for Yousuf Ahmad Fahmi Qirimli, merchant, P.O.Box 634, Riyadh-1 1421
41. SR I million for Al-Baidaa Trading Co., P.O.Box 7356, Jeddah-21462.
42. SR 1 million for Haji Abdullah Alireza & Co. Ltd, P.O.Box 8, Jeddah-2141 1
43. SR I million for Gulf Vegetable Oils and Ghee Co. "Nabati", P.O.Box 8421, Dammam-3 1482.
44. SR I million for Dallah Agricultural Company, P.O.Box 13097, Jeddah-21493.
45. SR 1 mjllion for Saleh Mutlaq Al-Henakey Co., P.O.Box 37, Rass.
46. SR 15.4 million for Taibah Investment and Real Estate Development Co., P.O.Box 4646, Madinah.
47. SR 1 million for Abdul Aziz 8c Mohammad Abdullah Al-lomaih, P.O.Box 132, Riyadh-1 141 1.
48. SR 1 million for Yousuf Bin Ahmed Kanoo, POBox 37, Dammam-3141 I.
49. SR 2 million for Saudi Binladen Group: Bakur Mohammad Binladen & Bros, P.O.Box 8918, Jeddah 21492.

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Amiantit Saudi Arabia Ltd

Main Office: Dammam (P.O. Box 589. Dammam-31421, Tel. 857-1160, fax. 857-9039,

Capital: SR 160,000,000 is held by 23 Saudi and 2 foreign partners

1. SR 37,113,000 (23+%) for Al-Bilad for Trading 8c Economy.
2. SR 41,058,000 (25+%) for Mawarid Investment Co.
3. SR 100,000 (0.03125%) for H H Prince Faisal Ibn Sa'ad Al Saud.
4. SR 1,000,000 (0.0625%) for HH Prince Ahmed Ibn Abdul Rahman Al Saud.
5. SR 500,000 (0.03125%) for H H Prince Faisal Ibn Khalid Al Saud.
6. SR 500,000 (0.03125%) for Ibraheem Mohammed Al-Sultan.
7. SR 3,335,000 (2.084375%) for Marwan Mohammed Tawfeeq Al-laroodi.
8. SR 896,000 (0.056%) for Mrs. Najlaa Mohammed Tawfeeq Al-Jaroodi.
9. SR 896,000 *(0.056°l0)* far Mrs. Nora Mahammed Tawfeeq Al-Jaroodi.
10. SR 329,000 (0.0205625%) for Ali Mohammed Al-Ali Al-Bassam.
11. SR 3,505,000 (2. 190625%) or Abdul Rahman Al-Saleh Al-Suhaimi & Partners Co.
12. SR 6,573,000 (4.108125%) for Arab Intemational Marketing Est.
13. SR 400,000 (0.025%) for Hussein Mohammed Hassan Al-Angari.
14. SR 800,000 (0.05%) for Abdullah Abdul Aziz Al-Angari.
15. SR 500,000 (0.03125%) for Ali Moahmmed Abdullah Al-Turky.
16. SR 500,000 (0.03125%) for Sulaiman Al-Hamad Al-Sulaiman.
17. SR 1,478,000 (0.092375%) for Sulaiman Al-Abdul Aziz Al-Rajhi.
18. SR 438,000 (0.U27375%) for Mahmood Shukri Al-Qowatly.
19. SR 7,340,000 (0.45875%) for Abdul Aziz Saleb Al-Bassam.
20. SR 1,372,000 (0.08575%) for Ahmed Chassan Shaker.
21. SR 1,371,000 (0.0856875%) for Amru Ghassan Shaker.
22. SR 1,371,000 (0.0856875%) for Zaid Ghassan Shaker.
23. SR 1,230,000 (0.076875%) for Saleb Abdul Aziz Ibn Saleh Al-Rajhi.
24. SR 42,071,000 (26.294375%) for Noueva Holding A.G. of Switzerland.
25. SR 4,924,000 (3.0775%) for Zuider Stiftong of Vaduz, Liechtenstein.

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